

April 8, 1999

To the People of Kentucky
The Honorable Paul E. Patton, Governor
John P. McCarty, Secretary
Finance and Administration Cabinet

As Auditor of Public Accounts, I am pleased to transmit herewith the report of our Statewide Single Audit of the Commonwealth of Kentucky for the year ended June 30, 1997. This report contains our independent auditor's report on the Commonwealth's supplementary schedules of expenditures of federal awards and our reports on the Commonwealth's compliance with laws and regulations and on internal control over financial reporting and compliance. Accompanying this report is the Commonwealth's Comprehensive Annual Financial Report which contains our independent auditor's report on the Commonwealth's general-purpose financial issued January 30, 1998.

On behalf of the Division of Financial Audit of the office of the Auditor of Public Accounts, I wish to thank the employees of the Commonwealth of Kentucky for their cooperation during the course of our audit. Should you have any questions concerning this report, please contact Anthony Leachman, Director, Division of Financial Audit, or me.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Ed Hatchett", with a stylized flourish at the end.

Edward B. Hatchett, Jr.
Auditor of Public Accounts



**REPORT OF THE STATEWIDE SINGLE AUDIT
OF THE
COMMONWEALTH OF KENTUCKY**

For the Year Ended June 30, 1997

EDWARD B. HATCHETT, JR.
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COMMONWEALTH OF KENTUCKY
INTRODUCTION
FOR THE YEAR ENDED JUNE 30, 1997

Introduction

The Auditor of Public Accounts, acting as principal auditor in conjunction with various certified public accounting firms, annually performs a statewide single audit of the Commonwealth of Kentucky. This audit allows the Commonwealth to comply with federal audit requirements as set forth in the Single Audit Act of 1984, as amended by Public Law 104-156, and the regulations contained in the U.S. Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Public Law 104-156, referred to as the Single Audit Act Amendments of 1996, is effective for fiscal years beginning after June 30, 1996.

Report Package

Per Section 320 (c) of OMB Circular A-133, the reporting package shall include the financial statements and Schedule of Expenditures of Federal Awards, summary schedule of prior audit findings, Auditor's Reports, and Corrective Action Plan. For the year ended June 30, 1997, the Single Audit Report is presented in two volumes. The Comprehensive Annual Financial Report (CAFR), which contains the general purpose financial statements and the auditor's report thereon, dated January 31, 1998, has been issued under separate cover.

The Single Audit Report, the second volume, contains the auditor's reports on compliance and internal control over financial reporting, on compliance and internal control over compliance with requirements applicable to major Federal programs, and on the Schedule of Expenditures of Federal Awards. The Single Audit Report also contains the Schedule of Expenditures of Federal Awards, Schedule of Findings and Questioned Costs (including Summary of Auditor's Results, Financial Statement Findings, and Federal Award Findings and Questioned Costs), and the Summary Schedule of Prior Audit Findings. The corrective action plans for the current year findings are reported in the Schedule of Findings and Questioned Costs.

Discussion of Audit Requirement Changes

As a result of the implementation of the Single Audit Act Amendments of 1996 and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, which replaced OMB Circular A-128, *Audits of State and Local Government*, various changes have occurred in the content and format of the Single Audit Report. These changes are briefly outlined below.

- The Schedule of Federal Financial Assistance was replaced by the Schedule of Expenditure of Federal Awards.

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INTRODUCTION
FOR THE YEAR ENDED JUNE 30, 1997

Discussion of Audit Requirement Changes (Continued)

- The Schedule of Findings and Questioned Costs replaced both the Schedule of Noncompliance and Questioned Costs and the Comments and Recommendations section previously included in the Single Statewide Audits of Kentucky. The Schedule of Findings and Questioned Costs is in three sections: Summary of Auditor's Results, Financial Statement Findings, and Federal Program Findings and Questioned Costs. Only material reportable and reportable conditions are required to be reported; thus, "Other Matter" findings will not be presented in the Single Statewide Audit.
- A Summary Schedule of Prior Audit Findings is required under the revised OMB Circular A-133 for prior year material reportable and reportable findings related to Federal programs. The status of prior year material reportable and reportable audit findings related to the financial statements are reported in the Financial Statement section of the Schedule of Findings and Questioned Costs.
- A Data Collection Form for Reporting on Audits of States, Local Governments, and Non-Profit Organizations is required to be completed, part by the auditee and part by the auditor.
- The threshold that required an audit increased from \$25,000 to \$300,000 in federal awards expended. Under OMB Circular A-128, auditees that received \$100,000 in federal awards were required to have a single audit and auditees that received between \$25,000 and \$100,000 were required to have either single audits or program-specific audits. The emphasis is now on the federal awards expended rather than received.
- In addition, OMB Circular A-133 requires a risk based approach for determining major programs. The objective of risk based auditing is to rotate the mixture of federal awards covered by audits over time. The auditor classifies programs as Type A or Type B. Type A programs have higher expenditure levels than the smaller Type B programs. Auditors then classify the Type A and B program as low risk or high risk. Low risk programs are programs which have been audited within three years, have no recent material or reportable findings, and no recent known or likely questioned costs greater than \$10,000 for a type of compliance requirement. If the specific guidelines discussed in OMB Circular A-133 are met, a high risk Type B program may be audited instead of a low risk Type B program. This achieves the goal of rotating the mixture of federal awards covered by an audit.

COMMONWEALTH OF KENTUCKY
INTRODUCTION
FOR THE YEAR ENDED JUNE 30, 1997

Discussion of Audit Requirement Changes (Continued)

As a result of the various changes discussed above, the following programs, which the Auditor of Public Account's Office audited last year, did not require federal program audits for the fiscal year ended June 30, 1997:

Federal Financial Assistance - Non Major Programs:

Civil Rights (Personnel Cabinet)
Kentucky Commission on Human Rights
Department of Community Development
Kentucky Heritage Council
Kentucky Arts Council
Council on Post Secondary Education
Department of Fish and Wildlife Resources
Office of Management and Budget
Office of Office of Attorney General
Kentucky Department for Libraries and Archives
Justice Cabinet
Labor Cabinet
Kentucky Accounts Payable System
Insurance Administration and Risk Management Fund

Audit Approach

Our audit was conducted in accordance with generally accepted auditing standards, *Government Auditing Standards*, the Single Audit Act Amendments of 1996, and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. The scope of the statewide single audit for the year ended June 30, 1997, included:

- An audit of the general-purpose financial statements and required supplementary schedules in accordance with generally accepted government auditing standards;
- An audit of supplementary Schedule of Expenditures of Federal Awards (excluding state universities, as discussed below) in accordance with generally accepted government auditing standards;
- An audit of the internal control applicable to the Commonwealth of Kentucky's organizational units and administrative bodies, to the extent necessary to consider and test the internal accounting and administrative control systems as required by generally accepted government auditing standards, the Single Audit Act Amendments of 1996, and the provisions of OMB Circular A-133; and

COMMONWEALTH OF KENTUCKY
INTRODUCTION
FOR THE YEAR ENDED JUNE 30, 1997

Audit Approach (Continued)

- A selection and testing of transactions and records relating to each major Federal financial assistance program to obtain reasonable assurance that the Commonwealth of Kentucky administers its major Federal financial assistance programs in compliance with laws and regulations for which noncompliance could have a material effect on the allowability of program expenditures or on the Commonwealth of Kentucky's general-purpose financial statements.

The Auditor of Public Account's office conducted the audit of the internal control focusing on the following objectives:

- Considering the internal control in order to determine auditing procedures on the General-Purpose Financial Statements of the Commonwealth of Kentucky.
- Determining if the Commonwealth of Kentucky has an internal control to provide reasonable assurance that it is managing the Federal assistance programs in compliance with applicable laws and regulations.

The Statement of Position 98-3, *Audits of States, Local Governments, and Not-For-Profit Organizations Receiving Federal Awards*, OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and the Single Audit Act Amendments of 1996, permit the single audit to cover the entire operations of the entity or include a series of audits covering departments, agencies, or other organizational units expending Federal awards. The Commonwealth of Kentucky has elected to exclude state universities from the statewide single audit, except as part of the audit of the general-purpose financial statements. Thus, state universities are not included in the accompanying Schedules of Federal Financial Assistance and reports on internal control and compliance. It should be noted, however, that state universities are still required to have audits made in accordance with the provisions of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

Since not all state agencies use the Federal Grant Accounting Subsystem of the Statewide Accounting and Reporting System, the Auditor of Public Accounts requested all state agencies (excluding state universities) to prepare worksheets of Federal financial assistance, both cash and noncash. The source of these worksheets included the Statewide Accounting and Reporting System, agency accounting systems, agency manual records, etc. The agencies were also asked to reconcile the worksheets to the Statewide Accounting and Reporting System and to Federal grantor reports. These worksheets were compiled into the accompanying Schedules of Federal Financial Assistance.

COMMONWEALTH OF KENTUCKY
INTRODUCTION
FOR THE YEAR ENDED JUNE 30, 1997

If additional copies of the Single Statewide Audit of Kentucky are required, please contact Mona Logsdon, Open Records Administrator, with the Auditor of Public Accounts Office at (502) 564-5841. If copies of the Comprehensive Annual Financial Report for the fiscal year ended June 30, 1997 are required, please contact John P. McCarty, Finance and Administration Cabinet Secretary, at (502) 564-4240.

COMMONWEALTH OF KENTUCKY
INTRODUCTION
FOR THE YEAR ENDED JUNE 30, 1997

List of Abbreviations/Acronyms Used In This Report

ADD	Area Development District
AFR	Annual Financial Report
AHP	Accountable Health Plans
AIDS	Acquired Immunodeficiency Virus Syndrome
AIS/MR	Alternative Intermediate Services for the Mentally Retarded
Alliance	Kentucky Health Purchasing Alliance
APA	Auditor of Public Accounts
C & I	Cash and Investment Function
CAA	Community Action Agency
CAFR	Comprehensive Annual Financial Report
CBW	Children's Benefit Worker
CDP	Custom Data Processing, Inc.
CFC	Cabinet for Families and Children
CFDA	Catalog of Federal Domestic Assistance
CFR	Code of Federal Regulations
CHS	Cabinet for Health Services
CICS	Customer Information Control System
C/MI	Cash and Management Information
Commonwealth	Commonwealth of Kentucky
CPAS	Claims Processing Assessment System
DCBS	Cabinet for Families and Children, Department for Community Based Services (DCBS)
DCR	Design Change Request
DDS	Disability Determination System
DES	Workforce Development Cabinet, Department for Employment Services
DIS	Department of Information Systems
DJJ	Justice Cabinet, Department of Juvenile Justice
DMS	Cabinet for Health Services, Department for Medicaid Services
DOA	Finance and Administration, Division of Accounts
DPH	Cabinet for Health Services, Department for Public Health
DRF	Discrepancy Report Form
DSI	Cabinet for Families and Children, Department for Social Insurance
DSS	Cabinet for Families and Children, Department for Social Services
DWC	Workforce Development Cabinet, Department of Workers' Claims
EDP	Electronic Data Processing

COMMONWEALTH OF KENTUCKY
INTRODUCTION
FOR THE YEAR ENDED JUNE 30, 1997

List of Abbreviations/Acronyms Used In This Report (Continued)

Empower	EMPower Our Workforce With Effective Resources
FAC	Finance and Administration Cabinet
FEMA	Federal Emergency Management Agency
FFP	Federal Financial Participation
FHA/VA	United States Farmers' Home Administration/Veterans' Administration
FHWA	Federal Highway Administration
The Fund	Office of the Petroleum Storage Tank Environmental Assurance Fund
GAAP	Generally Accepted Accounting Principles
GAR	Governor's Authorized Representative
GASB	Governmental Accounting Standards Board
GMc	Glasscock McMullen Management Services Corporation
HCFA	Health Care Financing Administration
HIV	Human Immunodeficiency Virus
ID	Identification
IMS	Information Management Systems
IRS	Internal Revenue Service
JCL	Job Control Language
JOBS	Job Opportunities and Basic Skills Program
JTPA	Job Training Partnership Act
JV	Journal Voucher
KACA	Kentucky Association for Community Action
KAMES	Kentucky Automated Management and Eligibility System
KAR	Kentucky Administrative Regulations
KCA	Kentucky Automated Claims System
KCL	Kentucky Claims Inactive
KERS	Kentucky Employees' Retirement System
KET	Kentucky Educational Television
KHPA	Kentucky Health Purchasing Alliance
KRC	Kentucky Revenue Cabinet
KRS	Kentucky Revised Statute
KY Kare	Kentucky Kare Insurance Plan
LAN	Local Area Network
LIHEAP	Low-Income Home Energy Assistance Program
MAP	Medical Assistance Program
MARS	Management Administrative Reporting System

COMMONWEALTH OF KENTUCKY
INTRODUCTION
FOR THE YEAR ENDED JUNE 30, 1997

List of Abbreviations/Acronyms Used In This Report (Continued)

Military Affairs	Department of Military Affairs
MMIS	Medicaid Management Information System
NA	Not Applicable or Not Available
OIG	Office of Inspector General, Cabinet for Families and Children
OMB	United States Office of Management and Budget
OTR	Office of Training and Reemployment
PC	Personal Computer
Personnel	Personnel Cabinet
PCIE	President's Council on Integrity and Efficiency
POC	Plan of Correction
PST	Office Of The Petroleum Storage Tank Environmental Assurance Fund
PY	Prior Year
RCW/RNI	Record of Control Weakness/Record of Noncompliance
REV	Revenue Cabinet
RFP	Request For Proposal
RMDS	Report Management Distribution System
SEFA	Schedule of Expenditures of Federal Awards
SFY	State Fiscal Year
SSA	Social Security Administration
SSBG	Social Services Block Grant
SSG	Substate Grantee
SSWAK	Single Statewide Audit of Kentucky
STARS	Statewide Accounting and Reporting System
SVES	State Verification Eligibility System
TAG	Financial Management Technical Assistance Guide
TANF	Temporary Assistance for Needy Families
TC	Transportation Cabinet
TEA	Transportation Equity Act for the 21 st Century
TPA	Third Party Administrator
TPL	Third-Party Liability
TSO	Time Sharing Option
TVA	Tennessee Valley Authority
TWIST	The Worker's Information SysTem
UPPS	Unified Personnel and Payroll System
U.S.	United States

COMMONWEALTH OF KENTUCKY
INTRODUCTION
FOR THE YEAR ENDED JUNE 30, 1997

List of Abbreviations/Acronyms Used In This Report (Continued)

USC	United States Code
USDA	United States Department of Agriculture
USDOL	United States Department of Labor
WFDC	Workforce Development Cabinet
WIC	Women, Infants, and Children Program
Y2K	Year 2000

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COMMONWEALTH OF KENTUCKY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - BY FEDERAL GRANTOR
FEDERAL ASSISTANCE PROGRAMS
FOR THE YEAR ENDED JUNE 30, 1997

Federal Grantor CFDA #		Pass- Through Grantor's #	State Agency	Expenditures	
Program Title				Cash	Noncash
<u>U.S. Department of Agriculture</u>					
Direct Programs:					
10.025	Plant and Animal Disease, Pest Control, and Animal Care	NA	Department of Agriculture	42,725	
10.063	Agricultural Conservation Program	NA	Natural Resources and Environmental Protection Cabinet	152	
10.064	Forestry Incentives Program	NA	Natural Resources and Environmental Protection Cabinet	3,000	
10.069	Conservation Reserve Program (Note 16)	NA	Natural Resources and Environmental Protection Cabinet		
10.153	Market News	NA	Department of Agriculture	4,178	
10.156	Federal-State Marketing Improvement Program	NA	Department of Agriculture	20,000	
10.162	Inspection Grading and Standardization	NA	Department of Agriculture	6,168	
10.164	Wholesale Market Development (Note 16)	NA	Department of Agriculture		
10.550	Food Distribution (Note 2) (Note 5) (Note 17)	NA	Department of Agriculture		12,122,542
10.551	Food Stamps (Note 2) (Note 4) (Note 17)	NA	Cabinet for Families and Children and Cabinet for Health Services		391,085,496
10.553	School Breakfast Program (Note 2)	NA	Department of Education	25,658,101	
10.555	National School Lunch Program (Note 2)	NA	Department of Education	83,539,724	
10.556	Special Milk Program for Children	NA	Department of Education	107,728	
10.557	Special Supplemental Nutrition Program for Women, Infants, and Children (Note 2)	NA	Cabinet for Families and Children and Cabinet for Health Services	79,023,225	
10.558	Child and Adult Care Food Program (Note 2)	NA	Department of Education	13,101,042	
10.559	Summer Food Services Program For Children	NA	Department of Education	2,851,720	
10.560	State Administrative Expenses For Child Nutrition	NA	Department of Agriculture	112,902	
10.560	State Administrative Expenses for Child Nutrition	NA	Department of Education	1,177,399	
10.561	State Administrative Matching Grants for Food Stamp Program (Note 2)	NA	Cabinet for Families and Children and Cabinet for Health Services	26,507,895	
10.564	Nutrition Education and Training Program	NA	Department of Education	162,008	
10.565	Commodity Supplemental Food Program (Note 5) (Note 17)	NA	Department of Agriculture	814,332	1,134,354
10.568	Emergency Food Assistance Program (Administrative Costs)	NA	Cabinet for Families and Children and Cabinet for Health Services	103,598	
10.569	Emergency Food Assistance Program (Note 17)	NA	Department of Agriculture		1,735,206
10.572	WIC Farmers' Market Nutrition Program	NA	Department of Agriculture	31,493	

COMMONWEALTH OF KENTUCKY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - BY FEDERAL GRANTOR
FEDERAL ASSISTANCE PROGRAMS
FOR THE YEAR ENDED JUNE 30, 1997

Federal Grantor CFDA #		Pass- Through		Expenditures	
Program Title		Grantor's #	State Agency	Cash	Noncash
<u>U.S. Department of Agriculture (Continued)</u>					
Direct Programs (Continued):					
10.570	Nutrition Program For The Elderly (Commodities)	NA	Cabinet for Families and Children and Cabinet for Health Services	2,039,618	
10.664	Cooperative Forestry Assistance (Note 17)	NA	Natural Resources and Environmental Protection Cabinet	996,834	6,374,138
NA	Kentucky Rural Rehabilitation Student Loan Program (Note 3a)	NA	Department of Agriculture	119,340	
NA	Kentucky IA Demonstration	NA	Department of Education	3,198,453	
NA	Forestry Marijuana Suppression	NA	Department of Kentucky State Police	16,848	
NA	Drug Cooperative Agreement	NA	Department of Fish and Wildlife Resources	12,499	
NA	Memorandum of Agreement #68-5C16-019 (Note 17)	NA	Natural Resources and Environmental Protection Cabinet		45,470
NA	Kentucky Lock and Dam #10 (Note 17)	NA	Natural Resources and Environmental Protection Cabinet		40,000
Passed Through Department of Agriculture:					
10.550	Food Distribution (Note 2) (Note 17)	NA	Department of Corrections		29,915
Passed Through From Kentucky Department of Education:					
10.553	School Breakfast Program (Note 2)	NA	Cabinet for Families and Children and Cabinet for Health Services	122,428	
10.555	National School Lunch Program (Note 2)	NA	Cabinet for Families and Children and Cabinet for Health Services	188,064	
Passed Through From Cabinet for Families and Children and Cabinet for Health Services:					
10.557	Special Supplemental Nutrition for Women, Infants, and Children (Note 16)	F53703, F63703	Office of Office of Attorney General		
10.561	State Administrative Matching Grants For Food Stamp Program	F53404, F63404, F73404	Office of Office of Attorney General	262,697	

COMMONWEALTH OF KENTUCKY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - BY FEDERAL GRANTOR
FEDERAL ASSISTANCE PROGRAMS
FOR THE YEAR ENDED JUNE 30, 1997

Federal Grantor CFDA # Program Title	Pass- Through Grantor's #	State Agency	Expenditures	
			Cash	Noncash

U.S. Department of Agriculture (Continued)

Passed Through From Cabinet For Families and Children and Cabinet For Health Services:

10.561	State Administrative Matching Grants for Food Stamp Program	NA	Workforce Development Cabinet	2,071,606	
Subtotal U.S. Department of Agriculture				<u>242,295,777</u>	<u>412,567,121</u>

U.S. Department of Commerce

Direct Programs:

11.305	Economic Development - State and Local Economic Development Planning	NA	Department for Local Government	128,979	
11.307	Special Economic Development and Adjustment Assistance Program - Sudden and Severe Economic Dislocation and Long-Term Economic Deterioration (Note 3e)	NA	Department for Local Government	34,479	
11.450	Integrated Flood Observing and Warning System (IFLOWS)	NA	Department of Military Affairs	20,776	
11.550	Public Telecommunications Facilities - Construction and Planning	NA	Kentucky Educational Television Authority	358,096	
NA	Economic Development Act of 1965 (Note 16)	NA	Department of Parks		

Passed Through Department for Local Government:

11.305	Economic Development - State and Local Economic Development Planning	NA	Tourism Development Cabinet	45,400	
Subtotal U.S. Department of Commerce				<u>587,730</u>	

U.S. Department of Defense

Direct Programs:

12.002	Procurement Technical Assistance For Business Firms	NA	Department of Community Development	206,964	
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COMMONWEALTH OF KENTUCKY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - BY FEDERAL GRANTOR
FEDERAL ASSISTANCE PROGRAMS
FOR THE YEAR ENDED JUNE 30, 1997

Federal Grantor CFDA #		Pass- Through		Expenditures	
Program Title		Grantor's #	State Agency	Cash	Noncash
<u>U.S. Department of Defense (Continued)</u>					
Direct Programs (Continued):					
12.113	State Memorandum of Agreement Program for the Reimbursement of Technical Services	NA	Natural Resources and Environmental Protection Cabinet	561,782	
NA	Chemical Demilitarization and Remediation Activity for Hazardous Waste Activities at Chemical Demilitarization Facilities	NA	Natural Resources and Environmental Protection Cabinet	7,780	
NA	Teacher and Teacher's Aide Placement Assistance Program	NA	Department of Education	67,627	
Subtotal U.S. Department of Defense				844,153	
<u>U.S. Department of Housing and Urban Development</u>					
Direct Programs:					
14.182	Lower Income Housing Assistance Program - Section 8 New Construction/Substantial Rehabilitation (Note 2)	NA	Kentucky Housing Corporation	76,833,687	
14.185	Homeownership and Opportunity for People Everywhere	NA	Kentucky Housing Corporation	43,950	
14.227	Community Development Block Grants/Special Purpose Grants/Technical Assistance Program (Note 16)	NA	Department for Local Government		
14.228	Community Development Block Grants/State's Program (Note 2) (Note 11)	NA	Department for Local Government	27,282,998	
14.230	Rental Housing Rehabilitation (Note 10) (Note 16)	NA	Department for Local Government		
14.231	Emergency Shelter Grants Program (Note 16)	NA	Department for Local Government		
14.231	Emergency Shelter Grants Program	NA	Kentucky Housing Corporation	1,236,717	
14.235	Supportive Housing Program	NA	Kentucky Housing Corporation	692,747	
14.238	Shelter Plus Care	NA	Kentucky Housing Corporation	139,601	
14.239	HOME Investment Partnerships Program (Note 2)	NA	Kentucky Housing Corporation	11,418,719	
14.241	Housing Opportunities for Persons with AIDS	NA	Kentucky Housing Corporation	71,866	
14.401	Fair Housing Assistance Program – State and Local	NA	Kentucky Commission on Human Rights	83,603	
14.408	Fair Housing Initiatives and Administrative Enforcement Initiative Program	NA	Kentucky Commission on Human Rights	17,218	
14.855	Section 8 Rental Voucher Program	NA	Kentucky Housing Corporation	5,093,456	

COMMONWEALTH OF KENTUCKY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - BY FEDERAL GRANTOR
FEDERAL ASSISTANCE PROGRAMS
FOR THE YEAR ENDED JUNE 30, 1997

Federal Grantor		Pass-Through		Expenditures	
CFDA #		Grantor's #	State Agency	Cash	Noncash
Program Title					
U.S. Department of Housing and Urban Development (Continued)					
Direct Programs (Continued):					
14.856	Lower Income Housing Assistance Program - Section 8 Moderate Rehabilitation	NA	Kentucky Housing Corporation	1,818,637	
14.857	Section 8 Rental Certificate Program	NA	Kentucky Housing Corporation	7,036,131	
NA	FHA/VA Insured Loans (Note 2) (Note 17)	NA	Kentucky Housing Corporation		(Note 3h)
NA	Manufactured Construction Home Program (Note 14)	NA	Department of Housing, Buildings and Construction		
Subtotal U.S. Department of Housing and Urban Development				131,769,330	
U.S. Department of the Interior					
Direct Programs:					
15.250	Regulation of Surface Coal Mining and Surface Effects of Underground Coal Mining (Note 2)	NA	Natural Resources and Environmental Protection Cabinet	13,741,371	
15.252	Abandoned Mine Land Reclamation (AMLR) Program	NA	Natural Resources and Environmental Protection Cabinet	8,947,651	
15.605	Sport Fish Restoration	NA	Department of Fish and Wildlife Resources	1,804,498	
15.611	Wildlife Restoration	NA	Department of Fish and Wildlife Resources	3,548,154	
15.612	Endangered Species Conservation	NA	Department of Fish and Wildlife Resources	102,609	
15.615	Cooperative Endangered Species Conservation Fund	NA	Natural Resources and Environmental Protection Cabinet	28,443	
15.616	Clean Vessel Act	NA	Department of Fish and Wildlife Resources	24,249	
15.904	Historic Preservation Funds Grants-In-Aid	NA	Kentucky Heritage Council	845,480	
15.916	Outdoor Recreation - Acquisition, Development, and Planning (Note 8)	NA	Department for Local Government	168,781	
NA	Fish and Wildlife Coordination Act (Note 16)	NA	Department of Fish and Wildlife Resources		
NA	North American Wetlands Conservation Act	NA	Department of Fish and Wildlife Resources	18,644	
Subtotal U.S. Department of the Interior				29,229,880	

COMMONWEALTH OF KENTUCKY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - BY FEDERAL GRANTOR
FEDERAL ASSISTANCE PROGRAMS
FOR THE YEAR ENDED JUNE 30, 1997

Federal Grantor		Pass-Through	Expenditures	
CFDA #		Grantor's #	State Agency	
Program Title				Cash Noncash
<u>U.S. Department of Justice</u>				
Direct Programs:				
16.540	Juvenile Justice and Delinquency Prevention – Allocation to States (Note 16)	NA	Justice Cabinet	
16.548	Title V - Delinquency Prevention Program	NA	Justice Cabinet	211,064
16.554	National Criminal History Improvement Program (Note 16)	NA	Justice Cabinet	
16.560	Justice Research, Development, and Evaluation Project Grants	NA	Department of Kentucky State Police	112,452
16.574	DRUGFIRE Equipment Program	NA	Department of Kentucky State Police	25,817
16.575	Crime Victim Assistance	NA	Justice Cabinet	1,119,637
16.576	Crime Victim Compensation	NA	Crime Victims Compensation Board	318,368
16.579	Byrne Formula Grant Program	NA	Justice Cabinet	2,858,705
16.588	Violence Against Women Formula Grants	NA	Justice Cabinet	310,230
16.592	Local Law Enforcement Block Grants Program	NA	Department of Kentucky State Police	344,718
16.592	Local Law Enforcement Block Grants Program	NA	Justice Cabinet	171,602
16.710	Public Safety Partnership and Community Policing Grants	NA	Department of Kentucky State Police	35,700
16.710	Public Safety Partnership and Community Policing Grants	NA	Justice Cabinet	86,053
NA	Substance Abuse Evaluation Program	95PO1GIC1	Department of Corrections	19,167
NA	Criminal Justice Discretionary Grant Program	NA	Department of Kentucky State Police	626,399
Passed Through From Justice Cabinet - Division of Grants Management:				
16.554	National Criminal History Improvement Program	96-RU-RX-K001-AG	Office of Attorney General	7,219
16.575	Crime Victim Assistance	NA	Unified Prosecutorial System	317,940
16.579	Byrne Formula Grant Program	5382N101-1/96	Administrative Office of the Courts	128,763
16.579	Byrne Formula Grant Program	5170-N26-1/95, 5359-N26-2/95	Office of Attorney General	67,984
16.579	Byrne Formula Grant Program	NA	Department of Corrections	917,781
16.579	Byrne Formula Grant Program	NA	Department of Public Advocacy	45,450
16.579	Byrne Formula Grant Program	NA	Department of Kentucky State Police	2,488,231
16.588	Violence Against Women Formula Grants	NA	Administrative Office of the Courts	8,340
16.588	Violence Against Women Formula Grants	5506-VA2-1/96	Office of Attorney General	23,609

COMMONWEALTH OF KENTUCKY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - BY FEDERAL GRANTOR
FEDERAL ASSISTANCE PROGRAMS
FOR THE YEAR ENDED JUNE 30, 1997

Federal Grantor		Pass-		Expenditures	
CFDA #		Through			
Program Title		Grantor's #	State Agency	Cash	Noncash
<u>U.S. Department of Justice (Continued)</u>					
Passed Through From Justice Cabinet - Division of Grants Management (Continued):					
16.588	Violence Against Women Formula Grants	NA	Unified Prosecutorial System	71,183	
16.710	Public Safety Partnership and Community Policing Grants	96-CN-WX-K001-AOC	Administrative Office of the Courts	18,456	
Subtotal U.S. Department of Justice				10,334,868	

U.S. Department of Labor
Direct Programs:

17.002 Labor Force Statistics	NA	Workforce Development Cabinet	709,723	
17.005 Compensation and Working Conditions Data	NA	Labor Cabinet	93,442	
17.207 Employment Services (Note 2)	NA	Workforce Development Cabinet	12,438,300	
17.225 Unemployment Insurance (Note 2) (Note 7)	NA	Workforce Development Cabinet	260,414,458	
17.235 Senior Community Service Employment Program	NA	Cabinet for Families and Children and Cabinet for Health Services	1,495,159	
17.245 Trade Adjustment Assistance - Workers	NA	Workforce Development Cabinet	7,830,001	
17.246 Employment and Training Assistance- Dislocated Workers (Note 2)	NA	Workforce Development Cabinet	11,505,565	
17.250 Job Training Partnership Act (Note 2)	NA	Workforce Development Cabinet	24,869,382	
17.500 Occupational Safety and Health	NA	Labor Cabinet	2,637,236	
17.504 Consultation Agreements	NA	Labor Cabinet	16,762	
17.600 Mine Health and Safety Grants	NA	Department of Mines and Minerals	1,412,264	
17.801 Disabled Veterans' Outreach Program	NA	Workforce Development Cabinet	819,415	
17.804 Local Veterans' Employment Representative Program	NA	Workforce Development Cabinet	883,136	
Subtotal U.S. Department of Labor			325,124,843	

U.S. Department of Transportation
Direct Programs:

20.005 Boating Safety Financial Assistance	NA	Fish and Wildlife Resources	424,895	
20.106 Airport Improvement Plan	NA	Transportation Cabinet	313,393	
20.205 Highway Planning and Construction (Note 2)	NA	Department for Local Government	28,901	

COMMONWEALTH OF KENTUCKY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - BY FEDERAL GRANTOR
FEDERAL ASSISTANCE PROGRAMS
FOR THE YEAR ENDED JUNE 30, 1997

Federal Grantor CFDA # Program Title		Pass- Through Grantor's #	State Agency	Expenditures	
				Cash	Noncash
<u>U.S. Department of Transportation (Continued)</u>					
Direct Programs (Continued):					
20.205	Highway Planning and Construction	NA	Kentucky Historical Society	21,848	
20.205	Highway Planning and Construction (Note 2) (Note 6)	NA	Transportation Cabinet	285,067,252	
20.218	Motor Carrier Safety Assistance Program	NA	Transportation Cabinet	1,867,639	
20.308	Local Rail Freight Assistance	NA	Transportation Cabinet	280,511	
20.505	Federal Transit Technical Studies Grants	NA	Transportation Cabinet	285,924	
20.509	Public Transportation for Nonurbanized Areas	NA	Transportation Cabinet	3,842,476	
20.513	Capital Assistance Program for Elderly Persons and Persons with Disabilities	NA	Transportation Cabinet	1,009,346	
20.600	State and Community Highway Safety	NA	Department of Kentucky State Police	2,141,932	
20.700	Pipeline Safety	NA	Public Service Commission	217,038	
20.703	Interagency Hazardous Materials Public Sector Training and Planning Grants	NA	Department of Military Affairs	73,580	
NA	Joint Federal/State Motor Fuel Tax Compliance Project	NA	Revenue Cabinet	43,729	
Passed Through From Department of Kentucky State Police:					
20.600	State and Community Highway Safety	NA	Cabinet for Families and Children and Cabinet for Health Services	43,013	
20.600	State and Community Highway Safety	FIS-96-02	Transportation Cabinet	27,027	
20.600	State and Community Highway Safety	NA	Unified Prosecutorial System	14,933	
Passed Through From Department of Transportation:					
20.205	Highway Planning and Construction (Note 2)	NA	Tourism Development Cabinet	3,674	
Subtotal U.S. Department of Transportation				295,707,111	

U.S. Appalachian Regional Commission

Direct Programs:

23.001 Appalachian Regional Development	NA	Department for Community Development	190,937	
23.001 Appalachian Regional Development (Note 3b)	NA	Department for Local Government	296,177	

COMMONWEALTH OF KENTUCKY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - BY FEDERAL GRANTOR
FEDERAL ASSISTANCE PROGRAMS
FOR THE YEAR ENDED JUNE 30, 1997

Federal Grantor CFDA #		Pass- Through		Expenditures	
Program Title		Grantor's #	State Agency	Cash	Noncash
<u>U.S. Appalachian Regional Commission (Continued)</u>					
Direct Programs (Continued):					
23.002	Appalachian Supplements to Federal Grant-In-Aid (Area Development)	NA	Department for Local Government	742,895	
23.005	Appalachian Housing Project Planning Loan, Technical Assistance Grant and Site Development and Off-Site Improvement Grant - State Appalachian Housing Program (Note 16)	NA	Department for Local Government		
23.011	Appalachian State Research, Technical Assistance, and Demonstration Projects	NA	Department for Local Government	202,620	
23.011	Appalachian State Research, Technical Assistance, and Demonstration Projects (Note 16)	NA	Kentucky Heritage Council		
23.012	Appalachian Vocational and Other Education Facilities and Operations	NA	Workforce Development Cabinet	34,707	
NA	Regional Tourism Initiative	NA	Department of Travel	31,733	
Passed Through From Department for Local Government:					
23.005	Appalachian Housing Project Planning Loan, Technical Assistance Grant and Site Development and Off-Site Improvement Grant: State Appalachian Housing Programs (Note 3d)	78-140	Kentucky Housing Corporation	251,315	
Subtotal U.S. Appalachian Regional Commission				1,750,384	
<u>U.S. Equal Employment Opportunity Commission</u>					
Direct Program:					
30.002	Employment Discrimination – State and Local Fair Employment Practices Agency Contracts	NA	Kentucky Commission on Human Rights	28,492	
Subtotal U.S. Equal Employment Opportunity Commission				28,492	

COMMONWEALTH OF KENTUCKY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - BY FEDERAL GRANTOR
FEDERAL ASSISTANCE PROGRAMS
FOR THE YEAR ENDED JUNE 30, 1997

Federal Grantor CFDA # Program Title		Pass- Through Grantor's #	State Agency	Expenditures	
				Cash	Noncash
<u>U.S. General Services Administration</u>					
Direct Program:					
39.003	Donation of Federal Surplus Personal Property (Note 17)	NA	Finance and Administration Cabinet		2,511,487
Subtotal U.S. General Services Administration					2,511,487
<u>U.S. National Foundation On The Arts And The Humanities</u>					
Direct Programs:					
45.024	Promotion of the Arts – Grants to Organizations and Individuals	NA	Kentucky Historical Society	4,689	
45.024	Promotion of the Arts – Grants to Organizations and Individuals	NA	Kentucky Arts Council	130,383	
45.025	Promotion of the Arts – Partnership Agreements	NA	Kentucky Arts Council	62,673	
45.104	Promotion of the Humanities – Humanities Projects in Media	NA	Kentucky Educational Television Foundation	6,885	
45.129	Promotion of the Humanities – State Partnership	NA	Historical Society	7,449	
45.301	Institute of Museum and Library Services	NA	Historical Society	58,465	
45.301	Institute of Museum and Library Services	NA	Department of Parks	18,930	
Passed Through From Kentucky Arts Council:					
45.003	Promotion of the Arts - Arts in Education	96-9005	Kentucky Center for the Arts	7,106	
45.024	Promotion of the Arts - Grants to Organizations and Individuals	96-5154-0017	Kentucky Center for the Arts	1,500	
45.025	Promotion of the Arts – Partnership Agreements	96-6141-0043	Kentucky Center for the Arts	13,600	
Passed Through From Southern Arts Federation:					
45.024	Promotion of the Arts - Grants to Organizations and Individuals	DS 5/97	Kentucky Center for the Arts	3,000	
Subtotal U.S. National Foundation on the Arts and the Humanities				314,680	

COMMONWEALTH OF KENTUCKY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - BY FEDERAL GRANTOR
FEDERAL ASSISTANCE PROGRAMS
FOR THE YEAR ENDED JUNE 30, 1997

Federal Grantor CFDA # Program Title		Pass- Through Grantor's #	State Agency	Expenditures	
				Cash	Noncash
<u>U.S. National Science Foundation</u>					
Direct Program:					
47.076	Education and Human Resources	NA	Department of Education	2,247,923	
NA	Planning for a Ubiquitous Educational Network with Enhanced Cognitive Interaction	NA	Kentucky Educational Television Foundation	40,928	
Subtotal U.S. National Science Foundation				2,288,851	
<u>U.S. Small Business Administration</u>					
Direct Programs:					
59.041	Certified Development Company Loans (504 Loans) (Note 2)	NA	Commonwealth Small Business Development Corporation		(Note 3c)
59.045	Natural Resource Development	NA	Natural Resources and Environmental Protection Cabinet	35,633	
Subtotal U.S. Small Business Administration				35,633	
<u>U.S. Tennessee Valley Authority</u>					
Direct Program:					
62.001	TVA Environmental Research Center	NA	Natural Resources and Environmental Protection Cabinet	42,428	
Subtotal U.S. Tennessee Valley Authority				42,428	

COMMONWEALTH OF KENTUCKY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - BY FEDERAL GRANTOR
FEDERAL ASSISTANCE PROGRAMS
FOR THE YEAR ENDED JUNE 30, 1997

Federal Grantor CFDA # Program Title		Pass- Through Grantor's #	State Agency	Expenditures	
				Cash	Noncash
<u>U.S. Environmental Protection Agency</u>					
Direct Program:					
66.001	Air Pollution Control Program Support	NA	Natural Resources and Environmental Protection Cabinet	1,940,951	
66.032	State Indoor Radon Grants	NA	Cabinet for Families and Children and Cabinet for Health Services	277,027	
66.419	Water Pollution Control - State and Interstate Program Support	NA	Natural Resources and Environmental Protection Cabinet	1,113,203	
66.432	State Public Water System Supervision	NA	Natural Resources and Environmental Protection Cabinet	771,151	
66.435	Water Pollution Control - Lake Restoration Cooperative Agreements (Note 16)	NA	Natural Resources and Environmental Protection Cabinet		
66.438	Construction Management Assistance	NA	Natural Resources and Environmental Protection Cabinet	347,013	
66.454	Water Quality Management Planning	NA	Natural Resources and Environmental Protection Cabinet	194,686	
66.458	Capitalization Grants for State Revolving Funds (Note 2) (Note 3g)	NA	Kentucky Infrastructure Authority	35,535,701	
66.460	Nonpoint Source Implementation Grants	NA	Natural Resources and Environmental Protection Cabinet	992,459	
66.461	Wetlands Protection - Development Grants	NA	Natural Resources and Environmental Protection Cabinet	201,682	
66.463	National Pollutant Discharge Elimination System Related State Program Grants	NA	Natural Resources and Environmental Protection Cabinet	457,679	
66.467	Wastewater Operator Training Grant Program (Technical Assistance)	NA	Natural Resources and Environmental Protection Cabinet	40,013	
66.606	Surveys, Studies, Investigations, and Special Purpose Grants	NA	Natural Resources and Environmental Protection Cabinet	166,212	
66.700	Consolidated Pesticide Enforcement Cooperative Agreements	NA	Department of Agriculture	654,559	
66.701	Toxic Substances Compliance Monitoring Cooperative Agreements	NA	Natural Resources and Environmental Protection Cabinet	153,615	
66.707	TSCA Title IV State Lead Grants - Certification of Lead-Based Paint Professionals	NA	Cabinet for Families and Children and Cabinet for Health Services	227,948	
66.708	Pollution Prevention Grants Program	NA	Natural Resources and Environmental Protection Cabinet	94,675	
66.801	Hazardous Waste Management State Program Support	NA	Natural Resources and Environmental Protection Cabinet	1,542,776	

COMMONWEALTH OF KENTUCKY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - BY FEDERAL GRANTOR
FEDERAL ASSISTANCE PROGRAMS
FOR THE YEAR ENDED JUNE 30, 1997

Federal Grantor CFDA #		Pass- Through		Expenditures	
Program Title		Grantor's #	State Agency	Cash	Noncash
<u>U.S. Environmental Protection Agency (Continued)</u>					
Direct Programs (Continued):					
66.802	Superfund State Site - Specific Cooperative Agreements	NA	Natural Resources and Environmental Protection Cabinet	300,998	
66.804	State Underground Storage Tanks Program	NA	Natural Resources and Environmental Protection Cabinet	186,675	
66.805	Leaking Underground Storage Tank Trust Fund Program	NA	Natural Resources and Environmental Protection Cabinet	1,053,187	
66.808	Solid Waste Management Assistance	NA	Natural Resources and Environmental Protection Cabinet	28,061	
66.809	Superfund State Core Program Cooperative Agreements	NA	Natural Resources and Environmental Protection Cabinet	102,279	
66.951	Environmental Education Grants (Note 16)	NA	Department of Education		
Passed Through From Kentucky Infrastructure Authority:					
66.458	Capitalization Grants for State Revolving Funds	NA	Natural Resources and Environmental Protection Cabinet	815,417	
Subtotal U.S. Environmental Protection Agency				47,197,967	
<u>U.S. Department of Energy</u>					
Direct Programs:					
81.039	National Energy Information	NA	Natural Resources and Environmental Protection Cabinet	5,433	
81.041	State Energy Program	NA	Natural Resources and Environmental Protection Cabinet	450,403	
81.042	Weatherization Assistance For Low-Income Persons	NA	Cabinet for Families and Children and Cabinet for Health Services	2,552,544	
81.050	Energy Extension Service	NA	Natural Resources and Environmental Protection Cabinet	49,052	
81.052	Energy Conservation for Institutional Buildings	NA	Natural Resources and Environmental Protection Cabinet	35,127	
81.089	Fossil Energy Research and Development	NA	Department of Mines and Minerals	741,531	

COMMONWEALTH OF KENTUCKY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - BY FEDERAL GRANTOR
FEDERAL ASSISTANCE PROGRAMS
FOR THE YEAR ENDED JUNE 30, 1997

Federal Grantor CFDA #		Pass- Through		Expenditures	
Program Title		Grantor's #	State Agency	Cash	Noncash
<u>U.S. Department of Energy (Continued)</u>					
Direct Programs (Continued):					
81.502	Paducah Gaseous Diffusion Plant Environmental Monitoring and Oversight	NA	Natural Resources and Environmental Protection Cabinet	1,154,548	
NA	Weatherization - Oil Overcharge Fund	NA	Cabinet for Families and Children and Cabinet for Health Services	2,347,487	
Passed Through From Natural Resources and Environmental Protection Cabinet:					
81.041	State Energy Program	NA	Department of Housing, Buildings, and Construction	4,000	
81.041	State Energy Program	MA17628	Transportation Cabinet	2,800	
81.502	Paducah Gaseous Diffusion Plant Environmental Monitoring and Oversight	NA	Cabinet for Families and Children and Cabinet for Health Services	161,174	
Subtotal U.S. Department of Energy				7,504,099	
<u>U.S. Federal Emergency Management Agency</u>					
Direct Programs:					
83.008	Arson Prevention Initiative (Note 16)	NA	Department of Military Affairs		
83.011	Hazardous Materials Training Program for Implementation of the Superfund Amendment and Reauthorization Act (SARA) of 1986	NA	Department of Military Affairs	89,166	
83.100	Flood Insurance	NA	Department of Kentucky State Police	7,953	
83.105	Community Assistance Program-State Support Services Element (Note 16)	NA	Department of Military Affairs		
83.505	State Disaster Preparedness Grants	NA	Department of Military Affairs	43,668	
83.516	Disaster Assistance (Note 2)	NA	Department of Military Affairs	30,900,191	
83.521	Earthquake Hazards Reduction Grants	NA	Department of Military Affairs	49,294	
83.534	Emergency Management - State and Local Assistance	NA	Department of Military Affairs	1,869,394	
83.535	Mitigation Assistance (Note 16)	NA	Department of Military Affairs		
NA	Chemical Stockpile Emergency Preparedness Program	NA	Department of Military Affairs	2,782,877	

COMMONWEALTH OF KENTUCKY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - BY FEDERAL GRANTOR
FEDERAL ASSISTANCE PROGRAMS
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Federal Grantor CFDA # Program Title		Pass- Through Grantor's #	State Agency	Expenditures	
				Cash	Noncash
U.S. Federal Emergency Management Agency (Continued)					
Passed Through From Department of Military Affairs:					
83.105	Community Assistance Program - State Support Services Element (CAP-SSSE)	NA	Natural Resources and Environmental Protection Cabinet	60,738	
NA	Chemical Stockpile Emergency Preparedness Program	NA	Cabinet for Families and Children and Cabinet for Health Services	53,182	
Subtotal U.S. Federal Emergency Management Agency				35,856,463	
U.S. Department of Education					
Direct Programs:					
84.002	Adult Education - State Grant Program	NA	Workforce Development Cabinet	4,871,139	
84.004	Civil Rights Training and Advisory Services	NA	Department of Education	39,811	
84.007	Federal Supplemental Educational Opportunity Grants	NA	Workforce Development Cabinet	205,744	
84.009	Education of Children with Disabilities in State Operated or Supported Schools (Note 16)	NA	Department of Education		
84.010	Title I Grants To Local Educational Agencies (Note 2)	NA	Department of Education	119,427,418	
84.011	Migrant Education - Basic State Grant Program	NA	Department of Education	6,725,118	
84.012	Educationally Deprived Children - State Administration (Note 16)	NA	Department of Education		
84.013	Title I Program For Neglected And Delinquent Children (Note 16)	NA	Department of Education		
84.025	Services For Children With Deaf-Blindness	NA	Department of Education	186,826	
84.027	Special Education - Grants to States (Note 2)	NA	Department of Education	35,115,382	
84.029	Special Education - Personnel Development and Parent Training	NA	Department of Education	197,050	
84.032	Federal Family Education Loans (Note 2) (Note 3f)	NA	Kentucky Higher Education Assistance Authority	63,280,563	
84.032	Federal Family Education Loans (Note 2)	NA	Kentucky Higher Education Student Loan Corporation	(Note 3f)	
84.033	Federal Work-Study Program	NA	Workforce Development Cabinet	180,298	
84.034	Public Library Service	NA	Department for Libraries and Archives	1,370,722	

COMMONWEALTH OF KENTUCKY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - BY FEDERAL GRANTOR
FEDERAL ASSISTANCE PROGRAMS
FOR THE YEAR ENDED JUNE 30, 1997

Federal Grantor CFDA # Program Title		Pass- Through Grantor's #	State Agency	Expenditures	
				Cash	Noncash
U.S. Department of Education (Continued)					
Direct Programs (Continued):					
84.035	Interlibrary Cooperation and Resource Sharing	NA	Department for Libraries and Archives	220,534	
84.048	Vocational Education - Basic Grants to States (Note 2)	NA	Workforce Development Cabinet	10,270,568	
84.049	Vocational Education - Consumer and Homemaking Education	NA	Workforce Development Cabinet	22,607	
84.053	Vocational Education - State Councils	NA	Workforce Development Cabinet	146,496	
84.063	Federal Pell Grant Program	NA	Workforce Development Cabinet	5,611,179	
84.069	State Students Incentives Grants	NA	Kentucky Higher Education Assistance Authority	389,720	
84.073	National Diffusion Network	NA	Department of Education	59,630	
84.086	Special Education - Program For Severely Disabled Children	NA	Department of Education	247,588	
84.126	Rehabilitation Services - Vocational Rehabilitation Grants to States (Note 2)	NA	Workforce Development Cabinet	36,006,446	
84.151	Chapter 2 State Block Grants	NA	Department of Education	142,255	
84.154	Public Library Construction and Technology Enhancement	NA	Department for Libraries and Archives	6,000	
84.158	Secondary Education and Transitional Services for Youth with Disabilities	NA	Department of Education	356,248	
84.161	Rehabilitation Services - Client Assistance Program	NA	Workforce Development Cabinet	126,160	
84.164	Eisenhower Mathematics and Science Education - State Grants	NA	Department of Education	280,446	
84.169	Independent Living - State Grants	NA	Workforce Development Cabinet	387,421	
84.173	Special Education - Preschool Grants	NA	Department of Education	9,801,562	
84.174	Vocational Education - Community Based Organizations	NA	Workforce Development Cabinet	31,094	
84.176	Douglas Teacher Scholarships (Note 16)	NA	Kentucky Higher Education Assistance Authority		
84.177	Rehabilitation Service - Independent Living Services for Older Individuals Who are Blind	NA	Workforce Development Cabinet	154,289	
84.181	Special Education - Grants for Infants and Families with Disabilities	NA	Workforce Development Cabinet	153,901	
84.181	Special Education - Grants for Infants and Families with Disabilities	NA	Cabinet for Families and Children and Cabinet for Health Services	7,883,374	
84.185	Byrd Honors Scholarships	NA	Department of Education	416,453	
84.186	Safe and Drug-Free Schools and Communities - State Grants	NA	Cabinet for Families and Children and Cabinet for Health Services	1,161,264	

COMMONWEALTH OF KENTUCKY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - BY FEDERAL GRANTOR
FEDERAL ASSISTANCE PROGRAMS
FOR THE YEAR ENDED JUNE 30, 1997

Federal Grantor CFDA #		Pass- Through		Expenditures	
Program Title		Grantor's #	State Agency	Cash	Noncash
<u>U.S. Department of Education (Continued)</u>					
Direct Programs (Continued):					
84.186	Safe and Drug-Free Schools and Communities - State Grants	NA	Department of Education	4,696,001	
84.187	Supported Employment Services for Individuals with Severe Disabilities	NA	Workforce Development Cabinet	572,143	
84.192	Adult Education - Literacy Training for Homeless Adults	NA	Workforce Development Cabinet	5	
84.194	Bilingual Education Support Services	NA	Department of Education	65,284	
84.196	Education for Homeless Children and Youth	NA	Department of Education	597,620	
84.198	Workplace Literacy Partnerships (Note 16)	NA	Workforce Development Cabinet		
84.203	Star Schools	NA	Finance and Administration Cabinet	1,733,770	
84.211	First Schools and Teachers	NA	Department of Education	3,950	
84.213	Even Start - State Educational Agencies	NA	Department of Education	1,532,813	
84.214	Even Start - Migrant Education	NA	Department of Education	111,168	
84.215	Fund for Improvement in Education	NA	Department of Education	225,065	
84.215	Fund for Improvement in Education	NA	Kentucky Educational Television Foundation	307,131	
84.216	Capital Expenses	NA	Department of Education	320,562	
84.218	State School Improvement Grants	NA	Department of Education	348,087	
84.224	State Grants for Assistive Technology	NA	Workforce Development Cabinet	759,713	
84.240	Program of Protection and Advocacy of Individual Rights	NA	Department of Public Advocacy	115,846	
84.243	Tech-Prep Education	NA	Workforce Development Cabinet	1,576,513	
84.253	Supplementary State Grants for Facilities, Equipment, and Other Program Improvement Activities (Note 16)	NA	Workforce Development Cabinet		
84.254	State Literacy Resource Centers	NA	Workforce Development Cabinet	2,382	
84.257	National Institute for Literacy (Note 16)	NA	Workforce Development Cabinet		
84.265	Rehabilitation Training - State Vocational Rehabilitation Unit In-Service Training	NA	Workforce Development Cabinet	74,973	
84.276	Goals 2000 - State and Local Education Systemic Improvement Grants	NA	Department of Education	3,395,071	
84.278	General Administration and Program Support School to Work Grant	NA	Workforce Development Cabinet	7,129,916	
84.281	Eisenhower Professional Development State Grants	NA	Department of Education	2,827,149	
84.281	Eisenhower Professional Development State Grants	NA	Kentucky Council on Postsecondary Education	820,263	

COMMONWEALTH OF KENTUCKY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - BY FEDERAL GRANTOR
FEDERAL ASSISTANCE PROGRAMS
FOR THE YEAR ENDED JUNE 30, 1997

Federal Grantor CFDA # Program Title		Pass- Through Grantor's #	State Agency	Expenditures	
				Cash	Noncash
U.S. Department of Education (Continued)					
Direct Programs (Continued):					
84.298	Innovative Education Program Strategies	NA	Department of Education	3,612,832	
84.318	Technology Literacy Challenge Fund	NA	Department of Education	1,563,603	
Passed Through From Cabinet for Families and Children and Cabinet for Health Services:					
84.186	Safe and Drug-Free Schools and Communities - State Grants	NA	Department of Kentucky State Police	51,040	
84.186	Safe And Drug-Free Schools And Communities - State Grants	NA	Department of Education	155,997	
Passed Through From Kentucky Department of Education:					
84.009	Education of Children with Disabilities in State Operated or Supported Schools	NA	Cabinet for Families and Children and Cabinet for Health Services	69,746	
84.013	Title I Program for Neglected and Delinquent Children	759N&D	Department of Corrections	27,502	
84.013	Title I Program for Neglected and Delinquent Children	NA	Cabinet for Families and Children and Cabinet for Health Services	29,877	
84.027	Special Education – Grants to States (Note 2)	NA	Cabinet for Families and Children and Cabinet for Health Services	5,616	
84.298	Innovative Education Program Strategies	NA	Kentucky Center for the Arts	21,167	
Passed Through From Kentucky Information Resources Management Commission:					
84.203	Star Schools	NA	Kentucky Educational Television Foundation	3,449,817	
Passed Through From Public Broadcasting Service:					
84.203	Star Schools	NA	Kentucky Educational Television Foundation	116,181	
Passed Through From University of Louisville:					
84.262	Minority Teacher Recruitment		Department of Education	6,938	

COMMONWEALTH OF KENTUCKY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - BY FEDERAL GRANTOR
FEDERAL ASSISTANCE PROGRAMS
FOR THE YEAR ENDED JUNE 30, 1997

Federal Grantor		Pass-Through		Expenditures	
CFDA #		Grantor's #	State Agency	Cash	Noncash
Program Title					
U.S. Department of Education (Continued)					
Passed Through From Workforce Development Cabinet:					
84.048	Vocational Education - Basic Grants to States (Note 2)	NA	Department of Education	5,605,680	
84.049	Vocational Education – Consumer and Homemaking Education	NA	Department of Education	86,669	
84.174	Vocational Education – Community Based Organizations (Note 16)	NA	Department of Education		
84.199	Vocational Education – Cooperative Demonstration (Note 16)	NA	Department of Education		
84.199	Vocational Education – Cooperative Demonstration	NA	Labor Cabinet	24,088	
84.243	Tech - Prep Education	NA	Department of Education	15,000	
84.278	General Administration and Program Support School to Work Grant	NA	Department of Education	72,110	
Passed Through From Workforce Development Cabinet - Department For The Blind:					
84.126	Rehabilitation Services – Vocational Rehabilitation Grants To States (Note 2)	NA	Department of Education	9,018	
84.224	State Grants for Assistive Technology	NA	Department of Public Advocacy	90,003	
Subtotal U.S. Department of Education				347,703,615	
U.S. National Archives and Records Administration					
Direct Program:					
89.003	National Historical Publications and Records Grants	NA	Kentucky Historical Society	17,882	
Subtotal U.S. National Archives and Records Administration				17,882	

COMMONWEALTH OF KENTUCKY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - BY FEDERAL GRANTOR
FEDERAL ASSISTANCE PROGRAMS
FOR THE YEAR ENDED JUNE 30, 1997

Federal Grantor CFDA # Program Title		Pass- Through Grantor's #	State Agency	Expenditures	
				Cash	Noncash
U.S. Department Of Health And Human Services					
Direct Program:					
93.041	Special Programs for the Aging-Title VII, Chapter 3-Programs for Prevention of Elder Abuse, Neglect, and Exploitation	NA	Cabinet for Families and Children and Cabinet for Health Services	68,660	
93.042	Special Programs for the Aging-Title VII, Chapter 2 Long-Term Care Ombudsman Services for Older Individuals	NA	Cabinet for Families and Children and Cabinet for Health Services	66,995	
93.043	Special Programs for the Aging-Title III, Part F-Disease Prevention and Health Promotion Services	NA	Cabinet for Families and Children and Cabinet for Health Services	219,129	
93.044	Special Programs for the Aging-Title III, Part B-Grants for Supportive Services and Senior Centers	NA	Cabinet for Families and Children and Cabinet for Health Services	4,599,049	
93.045	Special Programs for the Aging-Title III, Part C-Nutrition Services	NA	Cabinet for Families and Children and Cabinet for Health Services	6,790,142	
93.046	Special Programs for the Aging-Title III, Part D-In-Home Services for Frail Older Individuals	NA	Cabinet for Families and Children and Cabinet for Health Services	145,750	
93.048	Special Programs for the Aging-Title IV- Training, Research, and Discretionary Projects and Programs	NA	Cabinet for Families and Children and Cabinet for Health Services	6,935	
93.048	Special Programs for the Aging - Title IV- Training, Research, and Discretionary Projects and Programs		Workforce Development Cabinet	65,605	
93.049	Special Programs for the Aging-Title VII, Chapter 6-Allotments for Vulnerable Elder Rights Protection Programs	NA	Cabinet for Families and Children and Cabinet for Health Services	3,903	
93.110	Maternal and Child Health Federal Consolidated Programs	NA	Cabinet for Families and Children and Cabinet for Health Services	275,346	
93.110	Maternal and Child Health Federal Consolidated Programs	NA	Commission for Children With Special Health Care Needs	490,112	
93.116	Project Grants and Cooperative Agreements for Tuberculosis Control Programs (Note 17)	NA	Cabinet for Families and Children and Cabinet for Health Services	886,774	112,044
93.119	Grants for Technical Assistance Activities Related to the Block Grant for Community Mental Health Services - Technical Assistance Centers for Evaluation	NA	Cabinet for Families and Children and Cabinet for Health Services	131,449	
93.125	Mental Health Planning and Demonstration Projects	NA	Cabinet for Families and Children and Cabinet for Health Services	16,343	

COMMONWEALTH OF KENTUCKY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - BY FEDERAL GRANTOR
FEDERAL ASSISTANCE PROGRAMS
FOR THE YEAR ENDED JUNE 30, 1997

Federal Grantor CFDA #		Pass- Through		Expenditures	
Program Title		Grantor's #	State Agency	Cash	Noncash
<u>U.S. Department Of Health And Human Services (Continued)</u>					
Direct Programs (Continued):					
93.130	Primary Care Services - Resource Coordination and Development Primary Care Offices	NA	Cabinet for Families and Children and Cabinet for Health Services	127,757	
93.138	Protection and Advocacy for Individuals with Mental Illness	NA	Department of Public Advocacy	246,833	
93.150	Projects for Assistance in Transition from Homelessness (PATH)	NA	Cabinet for Families and Children and Cabinet for Health Services	293,218	
93.197	Childhood Lead Poisoning Prevention Projects-State and Community-Based Childhood Lead Poisoning Prevention and Surveillance of Blood Lead Levels in Children	NA	Cabinet for Families and Children and Cabinet for Health Services	282	
93.217	Family Planning – Services		Cabinet for Families and Children and Cabinet for Health Services	3,690,908	
93.262	Occupational Safety and Health Research Grants	NA	Cabinet for Families and Children and Cabinet for Health Services	47,445	
93.268	Childhood Immunization Grants (Note 17)	NA	Cabinet for Families and Children and Cabinet for Health Services	3,486,305	2,918,624
93.283	Centers for Disease Control and Prevention – Investigations and Technical Assistance	NA	Cabinet for Families and Children and Cabinet for Health Services	196,570	
93.399	Cancer Control	NA	Cabinet for Families and Children and Cabinet for Health Services	53,901	
93.556	Family Preservation and Support Services	NA	Cabinet for Families and Children and Cabinet for Health Services	3,738,798	
93.558	Temporary Assistance for Needy Families (Note 2)	NA	Cabinet for Families and Children and Cabinet for Health Services	101,115,243	
93.560	Family Support Payments to States – Assistance Payments (Note 2)	NA	Cabinet for Families and Children and Cabinet for Health Services	61,103,194	
93.561	Job Opportunities and Basic Skills Training	NA	Cabinet for Families and Children and Cabinet for Health Services	3,345,328	
93.563	Child Support Enforcement (Note 2)	NA	Cabinet for Families and Children and Cabinet for Health Services	29,244,775	
93.563	Child Support Enforcement (Note 2)	NA	Workforce Development Cabinet	259	
93.568	Low-Income Home Energy Assistance (Note 2)	NA	Cabinet for Families and Children and Cabinet for Health Services	18,114,018	
93.569	Community Services Block Grant	NA	Cabinet for Families and Children and Cabinet for Health Services	7,419,493	

COMMONWEALTH OF KENTUCKY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - BY FEDERAL GRANTOR
FEDERAL ASSISTANCE PROGRAMS
FOR THE YEAR ENDED JUNE 30, 1997

Federal Grantor CFDA # Program Title		Pass- Through Grantor's #	State Agency	Expenditures	
				Cash	Noncash
U.S. Department Of Health And Human Services (Continued)					
Direct Programs (Continued):					
93.571	Community Services Block Grant Discretionary Awards-Community Food and Nutrition	NA	Cabinet for Families and Children and Cabinet for Health Services	42,466	
93.572	Emergency Community Services for the Homeless	NA	Cabinet for Families and Children and Cabinet for Health Services	74,900	
93.574	Child Care for Families At-Risk of Welfare Dependency	NA	Cabinet for Families and Children and Cabinet for Health Services	704,955	
93.575	Child Care and Development Block Grant (Note 2)	NA	Cabinet for Families and Children and Cabinet for Health Services	20,590,217	
93.585	Empowerment Zones Program	NA	Finance and Administration Cabinet	4,635,883	
93.586	State Court Improvement Program	NA	Administrative Office of the Courts	157,008	
93.596	Child Care Mandatory and Matching Funds of the Child Care and Development Fund	NA	Cabinet for Families and Children and Cabinet for Health Services	16,705,057	
93.600	Head Start	NA	Department of Education	162,781	
93.614	Child Development Associate Scholarships	NA	Cabinet for Families and Children and Cabinet for Health Services	325	
93.630	Developmental Disabilities Basic Support and Advocacy Grants	NA	Cabinet for Families and Children and Cabinet for Health Services	867,196	
93.630	Developmental Disabilities Basic Support and Advocacy Grants	NA	Department of Public Advocacy	450,203	
93.643	Children's Justice Grants to States	NA	Cabinet for Families and Children and Cabinet for Health Services	116,830	
93.645	Child Welfare Services - State Grants	NA	Cabinet for Families and Children and Cabinet for Health Services	4,609,325	
93.658	Foster Care - Title IV-E (Note 2)	NA	Cabinet for Families and Children and Cabinet for Health Services	42,291,011	
93.659	Adoption Assistance	NA	Cabinet for Families and Children and Cabinet for Health Services	3,944,699	
93.667	Social Services Block Grant (Note 2)	NA	Cabinet for Families and Children and Cabinet for Health Services	29,401,840	
93.668	Eldercare Volunteers Corps Demonstration	NA	Cabinet for Families and Children and Cabinet for Health Services	269	
93.669	Child Abuse and Neglect State Grants	NA	Cabinet for Families and Children and Cabinet for Health Services	466,597	
93.671	Family Violence Prevention and Services - Grants to States and Indian Tribes	NA	Cabinet for Families and Children and Cabinet for Health Services	464,499	
93.673	Grants to States for Planning and Development of Dependent Care Programs	NA	Cabinet for Families and Children and Cabinet for Health Services	32,859	

COMMONWEALTH OF KENTUCKY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - BY FEDERAL GRANTOR
FEDERAL ASSISTANCE PROGRAMS
FOR THE YEAR ENDED JUNE 30, 1997

Federal Grantor CFDA # Program Title		Pass- Through Grantor's #	State Agency	Expenditures	
				Cash	Noncash
U.S. Department Of Health And Human Services (Continued)					
Direct Programs (Continued):					
93.674	Independent Living	NA	Cabinet for Families and Children and Cabinet for Health Services	465,905	
93.675	National Center for Child Abuse and Neglect	01-9401-KY- CAPG	Office of Attorney General	25,769	
93.775	State Medicaid Fraud Control Units	01-9501-KY- 5050, 01- 9650-KY5050, 01-9701-KY- 5050	Office of Attorney General	669,555	
93.777	State Survey and Certification of Health Care Providers and Suppliers	NA	Cabinet for Families and Children and Cabinet for Health Services	2,902,227	
93.778	Medical Assistance Program (Note 2)	NA	Cabinet for Families and Children and Cabinet for Health Services	1,805,430,444	
93.779	Health Care Financing Research, Demonstration, and Evaluations	NA	Cabinet for Families and Children and Cabinet for Health Services	163,752	
93.917	HIV Care Formula Grants	NA	Cabinet for Families and Children and Cabinet for Health Services	1,506,475	
93.919	Cooperative Agreements for State-Based Comprehensive Breast and Cervical Cancer Early Detection Programs		Cabinet for Families and Children and Cabinet for Health Services	172,048	
93.931	Demonstration Grants to States for Community Scholarships	NA	Cabinet for Families and Children and Cabinet for Health Services	13,834	
93.938	Cooperative Agreement to Support Comprehensive School Health Programs to Prevent the Spread of HIV and Other Important Health Problems	NA	Department of Education	167,146	
93.940	HIV Prevention Activities - Health Department Based (Note 17)	NA	Cabinet for Families and Children and Cabinet for Health Services	1,188,506	110,253
93.944	Human Immunodeficiency Virus (HIV)/Acquired Immunodeficiency Virus Syndrome (AIDS) Surveillance	NA	Cabinet for Families and Children and Cabinet for Health Services	143,046	
93.958	Block Grants for Community Mental Health Services	NA	Cabinet for Families and Children and Cabinet for Health Services	3,441,893	
93.959	Block Grants for Prevention and Treatment of Substance Abuse (Note 2)	NA	Cabinet for Families and Children and Cabinet for Health Services	14,950,575	
93.977	Preventive Health Services - Sexually Transmitted Diseases Control Grants (Note 17)	NA	Cabinet for Families and Children and Cabinet for Health Services	517,992	76,120

COMMONWEALTH OF KENTUCKY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - BY FEDERAL GRANTOR
FEDERAL ASSISTANCE PROGRAMS
FOR THE YEAR ENDED JUNE 30, 1997

Federal Grantor		Pass-Through		Expenditures	
CFDA #		Grantor's #	State Agency	Cash	Noncash
Program Title					
U.S. Department Of Health And Human Services (Continued)					
Direct Programs (Continued):					
93.988	Cooperative Agreements for State-Based Diabetes Control Programs and Evaluation of Surveillance Systems (Note 17)	NA	Cabinet for Families and Children and Cabinet for Health Services	181,084	5,000
93.991	Preventive Health and Health Services Block Grant	NA	Cabinet for Families and Children and Cabinet for Health Services	3,107,854	
93.992	Alcohol and Drug Abuse and Mental Health Services Block Grant (Note 16)	NA	Kentucky Housing Corporation		
93.994	Maternal and Child Health Services Block Grant to the States (Note 2)	NA	Cabinet for Families and Children and Cabinet for Health Services	8,817,509	
NA	Tissue Residue Inspection	NA	Department of Agriculture	104	
NA	National Institute of Health - Stroke Belt Initiative (Note 16)	NA	Cabinet for Families and Children and Cabinet for Health Services		
NA	The Placement and Treatment of Neuropsychiatric Patients	NA	Cabinet for Families and Children and Cabinet for Health Services	490,832	
NA	Clinical Laboratory Improvement Act	NA	Cabinet for Families and Children and Cabinet for Health Services	155,101	
Passed Through From Office Of Office of Attorney General:					
93.672	Community-Based Prevention Program	NA	Cabinet for Families and Children and Cabinet for Health Services	23,909	
Passed Through From Cabinet for Families and Children and Cabinet for Health Services:					
93.558	Temporary Assistance for Needy Families (Note 2)	NA	Workforce Development Cabinet	2,042,536	
93.560	Family Support Payments to States-Assistance Programs	G-9504, G9604, G9704	Office of Attorney General	191,000	
93.561	Job Opportunities and Basic Skills Training	NA	Workforce Development Cabinet	2,541,105	
93.630	Developmental Disabilities Basic Support and Advocacy Grants	NA	Department of Education	74,083	
93.630	Developmental Disabilities Basic Support and Advocacy Grants	NA	Workforce Development Cabinet	30,000	
93.643	Children’s Justice Grants to States	NA	Unified Prosecutorial System	12,472	
93.669	Child Abuse and Neglect State Grants	G-9601	Office of Attorney General	23,848	
93.778	Medical Assistance Program (Note 2)	5-9505, 5-9605, 5-9705	Office of Attorney General	95,500	

COMMONWEALTH OF KENTUCKY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - BY FEDERAL GRANTOR
FEDERAL ASSISTANCE PROGRAMS
FOR THE YEAR ENDED JUNE 30, 1997

Federal Grantor CFDA #		Pass- Through Grantor's #	State Agency	Expenditures	
Program Title				Cash	Noncash
U.S. Department Of Health And Human Services (Continued)					
Passed Through From Cabinet for Families and Children and Cabinet for Health Services (Continued):					
93.958	Block Grant for Community Mental Health Services	NA	Workforce Development Cabinet	56,067	
93.994	Maternal and Child Health Services Block Grant to the States (Note 2)	NA	Commission for Children With Special Health Care Needs	4,013,452	
Passed Through From Department of Military Affairs:					
93.982	Mental Health Disaster Assistance and Emergency Mental Health	NA	Cabinet for Families and Children and Cabinet for Health Services	108,900	
Passed Through From University of Kentucky:					
93.672	Community-Based Prevention Program	NA	Kentucky Educational Television Authority	3,065	
Subtotal U.S. Department of Health and Human Services				2,225,437,027	3,222,041
U.S. Corporation For National and Community Service					
Direct Programs:					
94.003	State Commissions	NA	Kentucky Council on Postsecondary Education	128,086	
94.004	Learn and Serve America - School and Community Based Programs	NA	Kentucky Department of Education	296,943	
94.004	Learn and Serve America - School and Community Based Programs	NA	Kentucky Council on Postsecondary Education	102,200	
94.006	Americorps	NA	Kentucky Council on Postsecondary Education	2,139,426	
94.009	Training and Technical Assistance	NA	Kentucky Council on Postsecondary Education	52,911	
94.011	Foster Grandparent Program	NA	Cabinet for Families and Children and Cabinet for Health Services	430,106	

COMMONWEALTH OF KENTUCKY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - BY FEDERAL GRANTOR
FEDERAL ASSISTANCE PROGRAMS
FOR THE YEAR ENDED JUNE 30, 1997

Federal Grantor CFDA # Program Title		Pass- Through Grantor's #	State Agency	Expenditures	
				Cash	Noncash
<u>U.S. Corporation For National and Community Service (Continued)</u>					
Passed Through From Council on Higher Education:					
94.004	Learn and Serve America - School and Community Based Programs	94LCSKY003	Administrative Office of the Courts	18,558	
Subtotal U.S. Corporation For National and Community Service				3,168,230	
<u>U.S. Social Security Administration</u>					
Direct Program:					
96.001	Social Security - Disability Insurance (Note 2)	NA	Cabinet for Families and Children and Cabinet for Health Services	28,275,987	
Subtotal U.S. Social Security Administration				28,275,987	
<u>U.S. Army Corps of Engineers</u>					
Direct Program:					
NA	U.S. Army Corps of Engineers Conditional Projects (Note 12)	NA	Department of Fish and Wildlife Resources	22,263	
Subtotal U.S. Army Corps of Engineers				22,263	
<u>U.S. State Department</u>					
Direct Program:					
NA	U.S. Asia Environmental Partnership	NA	Department of Community Development	41,912	
Subtotal U.S. State Department				41,912	

COMMONWEALTH OF KENTUCKY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - BY FEDERAL GRANTOR
FEDERAL ASSISTANCE PROGRAMS
FOR THE YEAR ENDED JUNE 30, 1997

Federal Grantor		Pass-Through	Expenditures	
CFDA #		Grantor's #		
Program Title		State Agency	Cash	Noncash
<u>U.S. Department of Veterans Affairs</u>				
Direct Program:				
NA	Veterans Administration - State Approving Agency	Workforce Development Cabinet	144,183	
Subtotal U.S. Department of Veterans Affairs			144,183	
<u>U.S. National Occupational Information Coordinating Committee</u>				
Direct Program:				
NA	National Occupational Information Coordinating Committee	Workforce Development Cabinet	94,122	
Subtotal U.S. National Occupational Information Coordinating Committee			94,122	
<u>Other Federal Assistance</u>				
Direct Program:				
NA	Joint Funding Administration (Note 9)	NA Department for Local Government	1,749,000	
Subtotal Other Federal Assistance			1,749,000	
Subtotal Schedule of Expenditures of Federal Awards			3,737,566,910	418,300,649

COMMONWEALTH OF KENTUCKY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - BY STATE AGENCY
FEDERAL ASSISTANCE PROGRAMS
FOR THE YEAR ENDED JUNE 30, 1997

State Agency Federal Grantor CFDA # Program Title	Pass - Through Grantor's #	Expenditures	
		Cash	Noncash

ADMINISTRATIVE OFFICE OF THE COURTS

U.S. Department of Justice

Passed Through From Justice Cabinet - Division of Grants Management:

16.579	Byrne Formula Grant Program	5382N101-1/96	128,763	
16.588	Violence Against Women Formula Grants	NA	8,340	
16.710	Public Safety Partnership and Community Policing Grants	96-CN-WX-K001-AOC	18,456	

U.S. Department of Health and Human Services

Direct Program:

93.586	State Court Improvement Program	NA	157,008	
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U.S. Corporation For National and Community Service

Passed Through From Council on Higher Education:

94.004	Learn and Serve America - School and Community Based Programs	94LCSKY003	18,558	
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Subtotal Administrative Office of the Courts

331,125

DEPARTMENT OF AGRICULTURE

U.S. Department of Agriculture

Direct Programs:

10.025	Plant and Animal Disease, Pest Control, and Animal Care	NA	42,725	
10.153	Market News	NA	4,178	
10.156	Federal-State Marketing Improvement Program	NA	20,000	
10.162	Inspection Grading and Standardization	NA	6,168	
10.164	Wholesale Market Development (Note 16)	NA		
10.550	Food Distribution (Note 2) (Note 5) (Note 17)	NA		12,122,542
10.560	State Administrative Expenses for Child Nutrition	NA	112,902	
10.565	Commodity Supplemental Food Program (Note 5) (Note 17)	NA	814,332	1,134,354

COMMONWEALTH OF KENTUCKY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - BY STATE AGENCY
FEDERAL ASSISTANCE PROGRAMS
FOR THE YEAR ENDED JUNE 30, 1997

State Agency Federal Grantor CFDA # Program Title		Pass - Through Grantor's #	Expenditures	
			Cash	Noncash
DEPARTMENT OF AGRICULTURE (CONTINUED)				
<u>U.S. Department of Agriculture (Continued)</u>				
Direct Programs (Continued):				
10.569	Emergency Food Assistance Program (Note 17)	NA		1,735,206
10.572	WIC Farmers' Market Nutrition Program	NA	31,493	
NA	Kentucky Rural Rehabilitation Student Loan Program (Note 3a)	NA	119,340	
<u>U.S. Environmental Protection Agency</u>				
Direct Program:				
66.700	Consolidated Pesticide Enforcement Cooperative Agreements	NA	654,559	
<u>U.S. Department Of Health And Human Services</u>				
Direct Program:				
NA	Tissue Residue Inspection	NA	104	
<i>Subtotal Department of Agriculture</i>			1,805,801	14,992,102
KENTUCKY ARTS COUNCIL				
<u>U.S. National Foundation On The Arts And The Humanities</u>				
Direct Programs:				
45.024	Promotion of the Arts - Grants to Organizations and Individuals	NA	130,383	
45.025	Promotion of the Arts - Partnership Agreements	NA	62,673	
<i>Subtotal Kentucky Arts Council</i>			193,056	

COMMONWEALTH OF KENTUCKY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - BY STATE AGENCY
FEDERAL ASSISTANCE PROGRAMS
FOR THE YEAR ENDED JUNE 30, 1997

State Agency Federal Grantor CFDA # Program Title		Pass - Through Grantor's #	Expenditures	
			Cash	Noncash
OFFICE OF THE OFFICE OF ATTORNEY GENERAL				
U.S. Department of Agriculture				
Passed Through From Cabinet for Families and Children and Cabinet for Health Services:				
10.557	Special Supplemental Nutrition for Women, Infants, and Children (Note 16)	F53703, F63703		
10.561	State Administrative Matching Grants for Food Stamp Program	F53404, F63404, F73404	262,697	
U.S. Department of Justice				
Passed Through from Justice Cabinet - Division of Grants Management:				
16.554	National Criminal History Improvement Program	96-RU-RX-K001-AG	7,219	
16.579	Byrne Formula Grant Program	5170-N26-1/95, 5359- N26-2/95	67,984	
16.588	Violence Against Women Formula Grants	5506-VA2-1/96	23,609	
U.S. Department of Health and Human Services				
Direct Programs:				
93.675	National Center for Child Abuse and Neglect	01-9401-KY-CAPG	25,769	
93.775	State Medicaid Fraud Control Units	01-9501-KY-5050, 01- 9650-KY5050, 01-9701- KY-5050	669,555	
Passed Through From Cabinet for Families and Children and Cabinet for Health Services:				
93.560	Family Support Payments to States-Assistance Programs	G-9504, G9604, G9704	191,000	
93.669	Child Abuse and Neglect State Grants	G-9601	23,848	
93.778	Medical Assistance Program (Note 2)	5-9505, 5-9605, 5-9705	95,500	
Subtotal Office of the Office of Attorney General			1,367,181	

COMMONWEALTH OF KENTUCKY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - BY STATE AGENCY
FEDERAL ASSISTANCE PROGRAMS
FOR THE YEAR ENDED JUNE 30, 1997

State Agency Federal Grantor CFDA # Program Title		Pass - Through Grantor's #	Expenditures	
			Cash	Noncash
KENTUCKY CENTER FOR THE ARTS				
U.S. National Foundation On The Arts And The Humanities				
Passed Through From Southern Arts Federation:				
45.024	Promotion of the Arts - Grants to Organizations and Individuals	DS 5/97	3,000	
Passed Through From Kentucky Arts Council:				
45.003	Promotion of the Arts - Arts in Education	96-9005	7,106	
45.024	Promotion of the Arts - Grants to Organizations and Individuals	96-5154-0017	1,500	
45.025	Promotion of the Arts - Partnership Agreements	96-6141-0043	13,600	
U.S. Department of Education				
Passed Through From Kentucky Department of Education:				
84.298	Innovative Education Program Strategies	NA	21,167	
Subtotal Kentucky Center for the Arts			46,373	
COMMISSION FOR CHILDREN WITH SPECIAL HEALTH CARE NEEDS				
U.S. Department of Health and Human Services				
Direct Program:				
93.110	Maternal and Child Health Federal Consolidated Programs	NA	490,112	
Passed Through From Cabinet for Families and Children and Cabinet for Health Services:				
93.994	Maternal and Child Health Services Block Grant to the States	NA	4,013,452	
Subtotal Commission for Children with Special Health Care Needs			4,503,564	

COMMONWEALTH OF KENTUCKY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - BY STATE AGENCY
FEDERAL ASSISTANCE PROGRAMS
FOR THE YEAR ENDED JUNE 30, 1997

State Agency Federal Grantor CFDA # Program Title		Pass - Through Grantor's #	Expenditures	
			Cash	Noncash
DEPARTMENT OF COMMUNITY DEVELOPMENT				
<u>U.S. Department of Defense</u>				
Direct Program:				
12.002	Procurement Technical Assistance For Business Firms	NA	206,964	
<u>U.S. Appalachian Regional Commission</u>				
Direct Program:				
23.001	Appalachian Regional Development	NA	190,937	
<u>U.S. State Department</u>				
Direct Program:				
NA	U.S. Asia Environmental Partnership	NA	41,912	
<i>Subtotal Department of Community Development</i>			439,813	
DEPARTMENT OF CORRECTIONS				
<u>U.S. Department of Agriculture</u>				
Passed Through From Department of Agriculture:				
10.550	Food Distribution (Note 2) (Note 17)	NA		29,915
<u>U.S. Department of Justice</u>				
Direct Program:				
NA	Substance Abuse Evaluation Program	95PO1GIC1	19,167	
Passed Through From Justice Cabinet - Division of Grants Management:				
16.579	Byrne Formula Grant Program	NA	917,781	

COMMONWEALTH OF KENTUCKY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - BY STATE AGENCY
FEDERAL ASSISTANCE PROGRAMS
FOR THE YEAR ENDED JUNE 30, 1997

State Agency Federal Grantor CFDA # Program Title	Pass - Through Grantor's #	Expenditures	
		Cash	Noncash

DEPARTMENT OF CORRECTIONS (CONTINUED)

U.S. Department of Education

Passed Through From Kentucky Department of Education:

84.013	Title I Program for Neglected and Delinquent Children	759N&D	27,502	
<i>Subtotal Department of Corrections</i>			964,450	29,915

CRIME VICTIMS COMPENSATION BOARD

U.S. Department of Justice

Direct Program:

16.576	Crime Victim Compensation	NA	318,368	
<i>Subtotal Crime Victims Compensation Board</i>			318,368	

DEPARTMENT OF EDUCATION

U.S. Department of Agriculture

Direct Programs:

10.553	School Breakfast Program (Note 2)	NA	25,658,101	
10.555	National School Lunch Program (Note 2)	NA	83,539,724	
10.556	Special Milk Program for Children	NA	107,728	
10.558	Child and Adult Care Food Program (Note 2)	NA	13,101,042	
10.559	Summer Food Services Program for Children	NA	2,851,720	
10.560	State Administrative Expenses for Child Nutrition	NA	1,177,399	
10.564	Nutrition Education and Training Program	NA	162,008	
NA	Kentucky IA Demonstration	NA	3,198,453	

U.S. Department of Defense

Direct Program:

NA	Teacher and Teacher's Aide Placement Assistance Program	NA	67,627	
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COMMONWEALTH OF KENTUCKY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - BY STATE AGENCY
FEDERAL ASSISTANCE PROGRAMS
FOR THE YEAR ENDED JUNE 30, 1997

State Agency Federal Grantor CFDA # Program Title		Pass - Through Grantor's #	Expenditures	
			Cash	Noncash
DEPARTMENT OF EDUCATION (CONTINUED)				
<u>U.S. National Science Foundation</u>				
Direct Program:				
47.076	Education and Human Resources	NA	2,247,923	
<u>U.S. Environmental Protection Agency</u>				
Direct Program:				
66.951	Environmental Education Grants (Note 16)	NA		
<u>U.S. Department of Education</u>				
Direct Programs:				
84.004	Civil Rights Training and Advisory Services	NA	39,811	
84.009	Education of Children with Disabilities in State Operated or Supported Schools (Note 16)	NA		
84.010	Title I Grants To Local Educational Agencies (Note 2)	NA	119,427,418	
84.011	Migrant Education - Basic State Grant Program	NA	6,725,118	
84.012	Educationally Deprived Children - State Administration (Note 16)	NA		
84.013	Title I Program for Neglected and Delinquent Children (Note 16)	NA		
84.025	Services for Children with Deaf - Blindness	NA	186,826	
84.027	Special Education – Grants To States (Note 2)	NA	35,115,382	
84.029	Special Education - Personnel Development and Parent Training	NA	197,050	
84.073	National Diffusion Network	NA	59,630	
84.086	Special Education - Program For Severely Disabled Children	NA	247,588	
84.151	Chapter 2 State Block Grants	NA	142,255	
84.158	Secondary Education and Transitional Services for Youth with Disabilities	NA	356,248	
84.164	Eisenhower Mathematics and Science Education - State Grants	NA	280,446	
84.173	Special Education - Preschool Grants	NA	9,801,562	
84.185	Byrd Honors Scholarships	NA	416,453	

COMMONWEALTH OF KENTUCKY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - BY STATE AGENCY
FEDERAL ASSISTANCE PROGRAMS
FOR THE YEAR ENDED JUNE 30, 1997

State Agency Federal Grantor CFDA # Program Title		Pass - Through Grantor's #	Expenditures	
			Cash	Noncash
DEPARTMENT OF EDUCATION (CONTINUED)				
U.S. Department of Education (Continued)				
Direct Programs (Continued):				
84.186	Safe and Drug-Free Schools and Communities - State Grants	NA	4,696,001	
84.194	Bilingual Education Support Services	NA	65,284	
84.196	Education for Homeless Children and Youth	NA	597,620	
84.211	First Schools and Teachers	NA	3,950	
84.213	Even Start - State Educational Agencies	NA	1,532,813	
84.214	Even Start - Migrant Education	NA	111,168	
84.215	Fund for Improvement in Education	NA	225,065	
84.216	Capital Expenses	NA	320,562	
84.218	State School Improvement Grants	NA	348,087	
84.276	Goals 2000 - State and Local Education Systemic Improvement Grants	NA	3,395,071	
84.281	Eisenhower Professional Development State Grants	NA	2,827,149	
84.298	Innovative Education Program Strategies	NA	3,612,832	
84.318	Technology Literacy Challenge Fund	NA	1,563,603	
Passed Through From Workforce Development Cabinet:				
84.048	Vocational Education - Basic Grants to States (Note 2)	NA	5,605,680	
84.049	Vocational Education - Consumer and Homemaking Education	NA	86,669	
84.174	Vocational Education - Community Based Organizations (Note 16)	NA		
84.199	Vocational Education - Cooperative Demonstration (Note 16)	NA		
84.243	Tech - Prep Education	NA	15,000	
84.278	General Administration and Program Support School to Work Grant	NA	72,110	
Passed Through From Workforce Development Cabinet - Department For The Blind:				
84.126	Rehabilitation Services - Vocational Rehabilitation Grants To States (Note 2)	NA	9,018	

COMMONWEALTH OF KENTUCKY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - BY STATE AGENCY
FEDERAL ASSISTANCE PROGRAMS
FOR THE YEAR ENDED JUNE 30, 1997

State Agency Federal Grantor CFDA # Program Title		Pass - Through Grantor's #	Expenditures	
			Cash	Noncash
DEPARTMENT OF EDUCATION (CONTINUED)				
<u>U.S. Department of Education (Continued)</u>				
Passed Through From Cabinet for Families and Children and Cabinet for Health Services:				
84.186	Safe and Drug-Free Schools and Communities - State Grants	NA	155,997	
Passed Through From University of Louisville:				
84.262	Minority Teacher Recruitment		6,938	
<u>U.S. Department of Health and Human Services</u>				
Direct Programs:				
93.600	Head Start	NA	162,781	
93.938	Cooperative Agreement to Support Comprehensive School Health Programs to Prevent the Spread of HIV and Other Important Health Problems	NA	167,146	
Passed Through From Cabinet For Families And Children And Cabinet For Health Services:				
93.630	Developmental Disabilities Basic Support and Advocacy Grants	NA	74,083	
<u>U.S. Corporation For National And Community Services</u>				
Direct Program:				
94.004	Learn and Serve America - School and Community Based Programs	NA	296,943	
Subtotal Department of Education			331,059,082	

COMMONWEALTH OF KENTUCKY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - BY STATE AGENCY
FEDERAL ASSISTANCE PROGRAMS
FOR THE YEAR ENDED JUNE 30, 1997

State Agency Federal Grantor CFDA # Program Title	Pass - Through Grantor's #	Expenditures	
		Cash	Noncash

KENTUCKY EDUCATIONAL TELEVISION AUTHORITY

U.S. Department of Commerce

Direct Program:

11.550	Public Telecommunications Facilities - Construction and Planning	NA	358,096
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U.S. Department Of Education

Passed Through From Kentucky Information Resources Management Commission:

84.203	Star Schools	NA	3,449,817
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Passed Through From Public Broadcasting Service:

84.203	Star Schools	NA	116,181
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U.S. Department of Health and Human Services

Passed Through From University of Kentucky:

93.672	Infant and Toddler Child Care	NA	3,065
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Subtotal Kentucky Educational Television Authority

3,927,159

KENTUCKY EDUCATIONAL TELEVISION FOUNDATION

National Foundation On The Arts And The Humanities

Direct Program:

45.104	Promotion of the Humanities - Humanities Projects in Media	NA	6,885
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U.S. Department Of Education

Direct Program:

84.215	Fund for Improvement in Education	NA	307,131
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COMMONWEALTH OF KENTUCKY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - BY STATE AGENCY
FEDERAL ASSISTANCE PROGRAMS
FOR THE YEAR ENDED JUNE 30, 1997

State Agency Federal Grantor CFDA # Program Title	Pass - Through Grantor's #	Expenditures	
		Cash	Noncash

KENTUCKY EDUCATIONAL TELEVISION FOUNDATION (CONTINUED)

National Science Foundation

Direct Program:

NA	Planning for a Ubiquitous Educational Network with Enhanced Cognitive Interaction	NA	40,928
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Subtotal Kentucky Educational Television Foundation

354,944

CABINET FOR FAMILIES AND CHILDREN AND CABINET FOR HEALTH SERVICES

U.S. Department of Agriculture

Direct Programs:

10.551	Food Stamps (Note 2) (Note 4) (Note 17)	NA		391,085,496
10.557	Special Supplemental Nutrition Program for Women, Infants, and Children (Note 2)	NA	79,023,225	
10.561	State Administrative Matching Grants for Food Stamp Program (Note 2)	NA	26,507,895	
10.568	Emergency Food Assistance Program (Administrative Costs)	NA	103,598	
10.570	Nutrition Program for the Elderly (Commodities)	NA	2,039,618	

Passed Through From Kentucky Department of Education:

10.553	School Breakfast Program (Note 2)	NA	122,428
10.555	National School Lunch Program (Note 2)	NA	188,064

U.S. Department of Labor

Direct Program:

17.235	Senior Community Service Employment Program	NA	1,495,159
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U.S. Department of Transportation

Passed Through From Department of Kentucky State Police:

20.600	State and Community Highway Safety	NA	43,013
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COMMONWEALTH OF KENTUCKY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - BY STATE AGENCY
FEDERAL ASSISTANCE PROGRAMS
FOR THE YEAR ENDED JUNE 30, 1997

State Agency Federal Grantor CFDA # Program Title	Pass - Through Grantor's #	Expenditures	
		Cash	Noncash

CABINET FOR FAMILIES AND CHILDREN AND CABINET FOR HEALTH SERVICES (CONTINUED)

U.S. Environmental Protection Agency

Direct Programs:

66.032	State Indoor Radon Grants	NA	277,027
66.707	TSCA Title IV State Lead Grants - Certification of Lead-Based Paint Professionals	NA	227,948

U.S. Department of Energy

Direct Programs:

81.042	Weatherization Assistance for Low-Income Persons	NA	2,552,544
NA	Weatherization - Oil Overcharge Fund	NA	2,347,487

Passed Through From Natural Resources And Environmental Protection Cabinet:

81.502	Paducah Gaseous Diffusion Plant Environmental Monitoring and Oversight	NA	161,174
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U.S. Federal Emergency Management Agency

Passed Through From Department of Military Affairs:

NA	Chemical Stockpile Emergency Preparedness Program	NA	53,182
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U.S. Department of Education

Direct Programs:

84.181	Special Education - Grants for Infants and Families with Disabilities	NA	7,883,374
84.186	Safe and Drug-Free Schools - State Grants	NA	1,161,264

Passed Through From Kentucky Department of Education:

84.009	Education of Children with Disabilities in State Operated or Supported Schools	NA	69,746
84.013	Title I Program for Neglected and Delinquent Children	NA	29,877

COMMONWEALTH OF KENTUCKY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - BY STATE AGENCY
FEDERAL ASSISTANCE PROGRAMS
FOR THE YEAR ENDED JUNE 30, 1997

State Agency Federal Grantor CFDA # Program Title		Pass - Through Grantor's #	Expenditures	
			Cash	Noncash
CABINET FOR FAMILIES AND CHILDREN AND CABINET FOR HEALTH SERVICES (CONTINUED)				
U.S. Department of Education (Continued)				
Passed Through From Kentucky Department of Education (Continued):				
84.027	Special Education - Grants to States (Note 2)	NA	5,616	
U.S. Department of Health and Human Services				
Direct Programs:				
93.041	Special Programs for the Aging-Title VII, Chapter 3- Programs for Prevention of Elder Abuse, Neglect, and Exploitation	NA	68,660	
93.042	Special Programs for the Aging-Title VII, Chapter 2- Long Term Care Ombudsman Services for Older Individuals	NA	66,995	
93.043	Special Programs for the Aging-Title III, Part F- Disease Prevention and Health Promotion Services	NA	219,129	
93.044	Special Programs for the Aging-Title III, Part B- Grants for Supportive Services and Senior Centers	NA	4,599,049	
93.045	Special Programs for the Aging-Title III, Part C- Nutrition Services	NA	6,790,142	
93.046	Special Programs for the Aging-Title III, Part D-In- Home Services for Frail Older Individuals	NA	145,750	
93.048	Special Programs for the Aging-Title IV-Training, Research, and Discretionary Projects and Programs	NA	6,935	
93.049	Special Programs for the Aging-Title VII, Chapter 6- Allotments for Vulnerable Elder Rights Protection Programs	NA	3,903	
93.110	Maternal and Child Health Federal Consolidated Programs	NA	275,346	
93.116	Project Grants and Cooperative Agreements for Tuberculosis Control Programs (Note 17)	NA	886,774	112,044
93.119	Grants for Technical Assistance Activities Related to the Block Grant for Community Mental Health Services - Technical Assistance Centers for Evaluation	NA	131,449	
93.125	Mental Health Planning and Demonstration Projects	NA	16,343	

COMMONWEALTH OF KENTUCKY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - BY STATE AGENCY
FEDERAL ASSISTANCE PROGRAMS
FOR THE YEAR ENDED JUNE 30, 1997

State Agency Federal Grantor CFDA # Program Title		Pass - Through Grantor's #	Expenditures	
			Cash	Noncash
CABINET FOR FAMILIES AND CHILDREN AND CABINET FOR HEALTH SERVICES (CONTINUED)				
U.S. Department of Health and Human Services (Continued)				
Direct Programs (Continued):				
93.130	Primary Care Services - Resource Coordination and Development Primary Care Offices	NA	127,757	
93.150	Projects for Assistance in Transition from Homelessness (Path)	NA	293,218	
93.197	Childhood Lead Poisoning Prevention Projects-State and Community-Based Childhood Lead Poisoning Prevention and Surveillance of Blood Lead Levels in Children	NA	282	
93.217	Family Planning - Services		3,690,908	
93.262	Occupational Safety and Health Research Grants	NA	47,445	
93.268	Childhood Immunization Grants (Note 17)	NA	3,486,305	2,918,624
93.283	Centers for Disease Control and Prevention - Investigations and Technical Assistance	NA	196,570	
93.399	Cancer Control	NA	53,901	
93.556	Family Preservation and Support Services	NA	3,738,798	
93.558	Temporary Assistance for Needy Families (Note 2)	NA	101,115,243	
93.560	Family Support Payments To States - Assistance Payments (Note 2)	NA	61,103,194	
93.561	Job Opportunities and Basic Skills Training	NA	3,345,328	
93.563	Child Support Enforcement (Note 2)	NA	29,244,775	
93.568	Low-Income Home Energy Assistance (Note 2)	NA	18,114,018	
93.569	Community Services Block Grant	NA	7,419,493	
93.571	Community Services Block Grant Discretionary Awards-Community Food and Nutrition	NA	42,466	
93.572	Emergency Community Services for the Homeless	NA	74,900	
93.574	Child Care for Families At-Risk of Welfare Dependency	NA	704,955	
93.575	Child Care and Development Block Grant (Note 2)	NA	20,590,217	
93.596	Child Care Mandatory and Matching Funds of the Child Care and Development Fund	NA	16,705,057	
93.614	Child Development Associate Scholarships	NA	325	
93.630	Developmental Disabilities Basic Support and Advocacy Grants	NA	867,196	
93.643	Children's Justice Grants to States	NA	116,830	

COMMONWEALTH OF KENTUCKY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - BY STATE AGENCY
FEDERAL ASSISTANCE PROGRAMS
FOR THE YEAR ENDED JUNE 30, 1997

State Agency Federal Grantor CFDA # Program Title		Pass - Through Grantor's #	Expenditures	
			Cash	Noncash
CABINET FOR FAMILIES AND CHILDREN AND CABINET FOR HEALTH SERVICES (CONTINUED)				
U.S. Department of Health and Human Services (Continued)				
Direct Programs (Continued):				
93.645	Child Welfare Services - State Grants	NA	4,609,325	
93.658	Foster Care - Title IV-E (Note 2)	NA	42,291,011	
93.659	Adoption Assistance	NA	3,944,699	
93.667	Social Services Block Grant (Note 2)	NA	29,401,840	
93.668	Eldercare Volunteers Corps Demonstration	NA	269	
93.669	Child Abuse and Neglect State Grants	NA	466,597	
93.671	Family Violence Prevention and Services - Grants to States and Indian Tribes	NA	464,499	
93.673	Grants to States for Planning and Development of Dependent Care Programs	NA	32,859	
93.674	Independent Living	NA	465,905	
93.777	State Survey and Certification of Health Care Providers and Suppliers	NA	2,902,227	
93.778	Medical Assistance Program (Note 2)	NA	1,805,430,444	
93.779	Health Care Financing Research, Demonstration, and Evaluations	NA	163,752	
93.917	HIV Care Formula Grants	NA	1,506,475	
93.919	Cooperative Agreements for State-Based Comprehensive Breast and Cervical Cancer Early Detection Programs	NA	172,048	
93.931	Demonstration Grants to States for Community Scholarships	NA	13,834	
93.940	HIV Prevention Activities - Health Department Based (Note 17)	NA	1,188,506	110,253
93.944	Human Immunodeficiency Virus (HIV)/Acquired Immunodeficiency Virus Syndrome (AIDS) Surveillance	NA	143,046	
93.958	Block Grants for Community Mental Health Services	NA	3,441,893	
93.959	Block Grants for Prevention and Treatment of Substance Abuse (Note 2)	NA	14,950,575	
93.977	Preventive Health Services - Sexually Transmitted Diseases Control Grants (Note 17)	NA	517,992	76,120
93.988	Cooperative Agreements for State-Based Diabetes Control Programs and Evaluation of Surveillance Systems (Note 17)	NA	181,084	5,000

COMMONWEALTH OF KENTUCKY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - BY STATE AGENCY
FEDERAL ASSISTANCE PROGRAMS
FOR THE YEAR ENDED JUNE 30, 1997

State Agency Federal Grantor CFDA # Program Title		Pass - Through Grantor's #	Expenditures	
			Cash	Noncash
CABINET FOR FAMILIES AND CHILDREN AND CABINET FOR HEALTH SERVICES (CONTINUED)				
<u>U.S. Department of Health and Human Services (Continued)</u>				
Direct Programs (Continued):				
93.991	Preventive Health and Health Services Block Grant	NA	3,107,854	
93.994	Maternal and Child Health Services Block Grant to the States (Note 2)	NA	8,817,509	
NA	Clinical Laboratory Improvement Act	NA	155,101	
NA	The Placement and Treatment of Neuropsychiatric Patients	NA	490,832	
NA	National Institute of Health - Stroke Belt Initiative (Note 16)	NA		
Passed Through From Office Of the Office of Attorney General:				
93.672	Community-Based Prevention Program	NA	23,909	
Passed Through From Department Of Military Affairs:				
93.982	Mental Health Disaster Assistance and Emergency Mental Health	NA	108,900	
<u>U.S. Corporation For National And Community Service</u>				
Direct Program:				
94.011	Foster Grandparent Program	NA	430,106	
<u>U.S. Social Security Administration</u>				
Direct Program:				
96.001	Social Security - Disability Insurance (Note 2)	NA	28,275,987	
<i>Subtotal Cabinet for Families and Children and Cabinet for Health Services</i>			2,362,280,973	394,307,537

COMMONWEALTH OF KENTUCKY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - BY STATE AGENCY
FEDERAL ASSISTANCE PROGRAMS
FOR THE YEAR ENDED JUNE 30, 1997

State Agency Federal Grantor CFDA # Program Title		Pass - Through Grantor's #	Expenditures	
			Cash	Noncash
FINANCE AND ADMINISTRATION CABINET				
<u>U.S. General Services Administration</u>				
Direct Program:				
39.003	Donation of Federal Surplus Personal Property (Note 17)	NA		2,511,487
<u>U.S. Department of Education</u>				
Direct Program:				
84.203	Star Schools	NA	1,733,770	
<u>U.S. Department of Health And Human Services</u>				
Direct Program:				
93.585	Empowerment Zones Program	NA	4,635,883	
<i>Subtotal Finance and Administration Cabinet</i>			6,369,653	2,511,487
DEPARTMENT OF FISH AND WILDLIFE RESOURCES				
<u>U.S. Department of Agriculture</u>				
Direct Program:				
NA	Drug Cooperative Agreement	NA	12,499	
<u>U.S. Department of the Interior</u>				
Direct Programs:				
15.605	Sport Fish Restoration	NA	1,804,498	
15.611	Wildlife Restoration	NA	3,548,154	
15.612	Endangered Species Conservation	NA	102,609	
15.616	Clean Vessel Act	NA	24,249	
NA	Fish and Wildlife Coordination Act (Note 16)	NA		
NA	North American Wetlands Conservation Act	NA	18,644	
<u>U.S. Department of Transportation</u>				
Direct Program:				
20.005	Boating Safety Financial Assistance	NA	424,895	

COMMONWEALTH OF KENTUCKY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - BY STATE AGENCY
FEDERAL ASSISTANCE PROGRAMS
FOR THE YEAR ENDED JUNE 30, 1997

State Agency Federal Grantor CFDA # Program Title		Pass - Through Grantor's #	Expenditures	
			Cash	Noncash
DEPARTMENT OF FISH AND WILDLIFE RESOURCES (CONTINUED)				
<u>U.S. Army Corps of Engineers</u>				
Direct Program:				
NA	U.S. Army Corps of Engineers Conditional Projects (Note 12)	NA	22,263	
<i>Subtotal Department of Fish and Wildlife Resources</i>			5,957,811	
KENTUCKY HERITAGE COUNCIL				
<u>U.S. Department Of The Interior</u>				
Direct Program:				
15.904	Historic Preservation Funds Grants-In-Aid	NA	845,480	
<u>U.S. Appalachian Regional Commission</u>				
Direct Program:				
23.011	Appalachian State Research, Technical Assistance, and Demonstration Projects (Note 16)	NA		
<i>Subtotal Kentucky Heritage Council</i>			845,480	
KENTUCKY HIGHER EDUCATION ASSISTANCE AUTHORITY				
<u>U.S. Department of Education</u>				
Direct Programs:				
84.032	Federal Family Education Loans (Note 2) (Note 3f)	NA	63,280,563	
84.069	State Students Incentives Grants	NA	389,720	
84.176	Douglas Teacher Scholarships (Note 16)	NA		
<i>Subtotal Kentucky Higher Education Assistance Authority</i>			63,670,283	

COMMONWEALTH OF KENTUCKY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - BY STATE AGENCY
FEDERAL ASSISTANCE PROGRAMS
FOR THE YEAR ENDED JUNE 30, 1997

State Agency Federal Grantor CFDA # Program Title		Pass - Through Grantor's #	Expenditures	
			Cash	Noncash
KENTUCKY HIGHER EDUCATION STUDENT LOAN CORPORATION				
<u>U.S. Department of Education</u>				
Direct Program:				
84.032	Federal Family Education Loans (Note 2)	NA	(Note 3f)	
Subtotal Kentucky Higher Education Student Loan Corporation				
KENTUCKY HISTORICAL SOCIETY				
<u>U.S. Department Of Transportation</u>				
Direct Program:				
20.205	Highway Planning and Construction	NA	21,848	
<u>U.S. National Foundation On The Arts And Humanities</u>				
Direct Programs:				
45.024	Promotion of the Arts - Grants to Organizations and Individuals	NA	4,689	
45.129	Promotion of the Humanities - State Partnership	NA	7,449	
45.301	Institute of Museum and Library Services	NA	58,465	
<u>U.S. National Archives And Records Administration</u>				
Direct Program:				
89.003	National Historical Publications and Records Grants	NA	17,882	
Subtotal Kentucky Historical Society			110,333	
DEPARTMENT OF HOUSING, BUILDINGS AND CONSTRUCTION				
<u>U.S. Department of Housing and Urban Development</u>				
Direct Program:				
NA	Manufactured Construction Home Program (Note 14)	NA		

COMMONWEALTH OF KENTUCKY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - BY STATE AGENCY
FEDERAL ASSISTANCE PROGRAMS
FOR THE YEAR ENDED JUNE 30, 1997

State Agency Federal Grantor CFDA # Program Title	Pass - Through Grantor's #	Expenditures	
		Cash	Noncash

DEPARTMENT OF HOUSING, BUILDINGS AND CONSTRUCTION (CONTINUED)

U.S. Department of Energy

Passed Through From Natural Resources and Environmental Protection Cabinet:

81.041	State Energy Program	NA	4,000	
<i>Subtotal Department of Housings, Buildings and Construction</i>			4,000	

KENTUCKY HOUSING CORPORATION

U.S. Department of Housing and Urban Development

Direct Programs:

14.182	Lower Income Housing Assistance Program - Section 8 New Construction/Substantial Rehabilitation (Note 2)	NA	76,833,687	
14.185	Homeownership and Opportunity for People Everywhere	NA	43,950	
14.231	Emergency Shelter Grants Program	NA	1,236,717	
14.855	Section 8 Rental Voucher Program	NA	5,093,456	
14.235	Supportive Housing Program	NA	692,747	
14.238	Shelter Plus Care	NA	139,601	
14.239	HOME Investment Partnerships Program (Note 2)	NA	11,418,719	
14.241	Housing Opportunities for Persons with AIDS	NA	71,866	
14.856	Lower Income Housing Assistance Program - Section 8 Moderate Rehabilitation	NA	1,818,637	
14.857	Section 8 Rental Certificate Program	NA	7,036,131	
NA	FHA/VA Insured Loans (Note 2) (Note 17)	NA		(Note 3h)

U.S. Appalachian Regional Commission

Passed Through From Department for Local Government:

23.005	Appalachian Housing Project Planning Loan, Technical Assistance Grant, and Site Development and Off-Site Improvement Grant: State Appalachian Housing Programs (Note 3d)	78-140	251,315	
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COMMONWEALTH OF KENTUCKY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - BY STATE AGENCY
FEDERAL ASSISTANCE PROGRAMS
FOR THE YEAR ENDED JUNE 30, 1997

State Agency Federal Grantor CFDA # Program Title		Pass - Through Grantor's #	Expenditures	
			Cash	Noncash
KENTUCKY HOUSING CORPORATION (CONTINUED)				
U.S. Department of Health and Human Services				
Direct Program:				
93.992	Alcohol and Drug Abuse and Mental Health Services Block Grant (Note 16)	NA		
Subtotal Kentucky Housing Corporation			104,636,826	
KENTUCKY COMMISSION ON HUMAN RIGHTS				
U.S. Department of Housing and Urban Development				
Direct Programs:				
14.401	Fair Housing Assistance Program - State and Local	NA	83,603	
14.408	Fair Housing Initiatives and Administrative Enforcement Initiative Program	NA	17,218	
U.S. Equal Employment Opportunity Commission				
Direct Program:				
30.002	Employment Discrimination - State and Local Fair Employment Practices Agency Contracts	NA	28,492	
Subtotal Kentucky Commission on Human Rights			129,313	
KENTUCKY INFRASTRUCTURE AUTHORITY				
U.S. Environmental Protection Agency				
Direct Program:				
66.458	Capitalization Grants for State Revolving Funds (Note 2) (Note 3g)	NA	35,535,701	
Subtotal Kentucky Infrastructure Authority			35,535,701	

COMMONWEALTH OF KENTUCKY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - BY STATE AGENCY
FEDERAL ASSISTANCE PROGRAMS
FOR THE YEAR ENDED JUNE 30, 1997

State Agency Federal Grantor CFDA # Program Title		Pass - Through Grantor's #	Expenditures	
			Cash	Noncash
KENTUCKY COUNCIL ON POSTSECONDARY EDUCATION				
<u>U.S. Department of Education</u>				
Direct Programs:				
84.281	Eisenhower Professional Development State Grants	NA	820,263	
<u>U.S. Corporation For National And Community Service</u>				
Direct Programs:				
94.003	State Commissions	NA	128,086	
94.004	Learn and Serve America - School and Community Based Programs	NA	102,200	
94.006	Americorps	NA	2,139,426	
94.009	Training and Technical Assistance	NA	52,911	
<i>Subtotal Kentucky Council on Postsecondary Education</i>			3,242,886	
JUSTICE CABINET - DIVISION OF GRANTS MANAGEMENT				
<u>U.S. Department of Justice</u>				
Direct Programs:				
16.540	Juvenile Justice and Delinquency Prevention - Allocation to States (Note 16)	NA		
16.548	Title V - Delinquency Prevention Program	NA	211,064	
16.554	National Criminal History Improvement Program (Note 16)	NA		
16.575	Crime Victim Assistance	NA	1,119,637	
15.579	Byrne Formula Grant Program	NA	2,858,705	
16.588	Violence Against Women Formula Grants	NA	310,230	
16.592	Local Law Enforcement Block Grants Program	NA	171,602	
16.710	Public Safety Partnership and Community Policing Grants	NA	86,053	
<i>Subtotal Justice Cabinet - Division of Grants Management</i>			4,757,291	

COMMONWEALTH OF KENTUCKY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - BY STATE AGENCY
FEDERAL ASSISTANCE PROGRAMS
FOR THE YEAR ENDED JUNE 30, 1997

State Agency Federal Grantor CFDA # Program Title		Pass - Through Grantor's #	Expenditures	
			Cash	Noncash
LABOR CABINET				
<u>U.S. Department of Labor</u>				
Direct Programs:				
17.005	Compensation and Working Conditions Data	NA	93,442	
17.500	Occupational Safety and Health	NA	2,637,236	
17.504	Consultation Agreements	NA	16,762	
<u>U.S. Department of Education</u>				
Passed Through From Workforce Development Cabinet				
84.199	Vocational Education - Cooperative Demonstration	NA	24,088	
<i>Subtotal Labor Cabinet</i>			2,771,528	
DEPARTMENT FOR LIBRARIES AND ARCHIVES				
<u>U.S. Department Of Education</u>				
Direct Programs:				
84.034	Public Library Service	NA	1,370,722	
84.035	Interlibrary Cooperation and Resource Sharing	NA	220,534	
84.154	Public Library Construction and Technology Enhancement	NA	6,000	
<i>Subtotal Department of Libraries and Archives</i>			1,597,256	
DEPARTMENT FOR LOCAL GOVERNMENT				
<u>U.S. Department of Commerce</u>				
Direct Programs:				
11.305	Economic Development - State and Local Economic Development Planning	NA	128,979	

COMMONWEALTH OF KENTUCKY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - BY STATE AGENCY
FEDERAL ASSISTANCE PROGRAMS
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State Agency Federal Grantor CFDA # Program Title		Pass - Through Grantor's #	Expenditures	
			Cash	Noncash
DEPARTMENT FOR LOCAL GOVERNMENT (CONTINUED)				
U.S. Department of Commerce (Continued)				
Direct Programs (Continued):				
11.307	Special Economic Development and Adjustment Assistance Program - Sudden and Severe Economic Dislocation and Long Term Economic Deterioration (Note 3e)	NA	34,479	
U.S. Department Of Housing And Urban Development				
Direct Programs:				
14.227	Community Development Block Grants/Special Purpose Grants/Technical Assistance Program (Note 16)	NA		
14.228	Community Development Block Grants/State's Program (Note 2) (Note 11)	NA	27,282,998	
14.230	Rental Housing Rehabilitation (Note 10) (Note 16)	NA		
14.231	Emergency Shelter Grants Program (Note 16)	NA		
U.S. Department Of The Interior				
Direct Program:				
15.916	Outdoor Recreation - Acquisition, Development, and Planning (Note 8)	NA	168,781	
U.S. Department of Transportation				
Direct Program:				
20.205	Highway Planning and Construction (Note 2)	NA	28,901	
U.S. Appalachian Regional Commission				
Direct Programs:				
23.001	Appalachian Regional Development (Note 3b)	NA	296,177	
23.002	Appalachian Supplements to Federal Grant-In-Aid (Area Development)	NA	742,895	

COMMONWEALTH OF KENTUCKY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - BY STATE AGENCY
FEDERAL ASSISTANCE PROGRAMS
FOR THE YEAR ENDED JUNE 30, 1997

State Agency Federal Grantor CFDA # Program Title		Pass - Through Grantor's #	Expenditures	
			Cash	Noncash
DEPARTMENT FOR LOCAL GOVERNMENT (CONTINUED)				
<u>U.S. Appalachian Regional Commission (Continued)</u>				
Direct Programs (Continued):				
23.005	Appalachian Housing Project Planning Loan, Technical Assistance Grant, and Site Development and Off-Site Improvement Grant - State Appalachian Housing Program (Note 16)	NA		
23.011	Appalachian State Research, Technical Assistance, and Demonstration Projects	NA	202,620	
<u>Other Federal Assistance</u>				
Direct Program:				
NA	Joint Funding Administration (Note 9)	NA	1,749,000	
<i>Subtotal Department for Local Government</i>			30,634,830	
DEPARTMENT OF MILITARY AFFAIRS				
<u>U.S. Department of Commerce</u>				
Direct Program:				
11.450	Integrated Flood Observing and Warning System (IFLOWS)	NA	20,776	
<u>U.S. Department of Transportation</u>				
Direct Program:				
20.703	Interagency Hazardous Materials Public Sector Training and Planning Grants	NA	73,580	
<u>U.S. Federal Emergency Management Agency</u>				
Direct Programs:				
83.008	Arson Prevention Initiative (Note 16)	NA		
83.011	Hazardous Materials Training Program for Implementation of the Superfund Amendment and Reauthorization Act (SARA) of 1986	NA	89,166	

COMMONWEALTH OF KENTUCKY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - BY STATE AGENCY
FEDERAL ASSISTANCE PROGRAMS
FOR THE YEAR ENDED JUNE 30, 1997

State Agency Federal Grantor CFDA # Program Title		Pass - Through Grantor's #	Expenditures	
			Cash	Noncash
DEPARTMENT OF MILITARY AFFAIRS (CONTINUED)				
<u>U.S. Federal Emergency Management Agency (Continued)</u>				
Direct Programs (Continued):				
83.105	Community Assistance Program-State Support Services Element (Note 16)	NA		
83.505	State Disaster Preparedness Grants	NA	43,668	
83.516	Disaster Assistance (Note 2)	NA	30,900,191	
83.521	Earthquake Hazards Reduction Grants	NA	49,294	
83.534	Emergency Management - State and Local Assistance	NA	1,869,394	
83.535	Mitigation Assistance (Note 16)	NA		
NA	Chemical Stockpile Emergency Preparedness Program	NA	2,782,877	
Subtotal Department of Military Affairs			35,828,946	
DEPARTMENT OF MINES AND MINERALS				
<u>U.S. Department of Labor</u>				
Direct Program:				
17.600	Mine Health and Safety Grants	NA	1,412,264	
<u>U.S. Department of Energy</u>				
Direct Program:				
81.089	Fossil Energy Research and Development	NA	741,531	
Subtotal Department of Mines and Minerals			2,153,795	
NATURAL RESOURCES AND ENVIRONMENTAL PROTECTION CABINET				
<u>U.S. Department of Agriculture</u>				
Direct Programs:				
10.063	Agricultural Conservation Program	NA	152	
10.064	Forestry Incentives Program	NA	3,000	

COMMONWEALTH OF KENTUCKY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - BY STATE AGENCY
FEDERAL ASSISTANCE PROGRAMS
FOR THE YEAR ENDED JUNE 30, 1997

State Agency Federal Grantor CFDA # Program Title		Pass - Through Grantor's #	Expenditures	
			Cash	Noncash
NATURAL RESOURCES AND ENVIRONMENTAL PROTECTION CABINET (CONTINUED)				
U.S. Department of Agriculture (Continued)				
Direct Programs (Continued):				
10.069	Conservation Reserve Program (Note 16)	NA		
10.664	Cooperative Forestry Assistance (Note 17)	NA	996,834	6,374,138
NA	Memorandum of Agreement #68-5C16-019 (Note 17)	NA		45,470
NA	Kentucky Lock and Dam #10 (Note 17)	NA		40,000
U.S. Department of Defense				
Direct Programs:				
12.113	State Memorandum of Agreement Program for the Reimbursement of Technical Services	NA	561,782	
NA	Chemical Demilitarization and Remediation Activity for Hazardous Waste Activities at Chemical Demilitarization Facilities	NA	7,780	
U.S. Department of the Interior				
Direct Programs:				
15.250	Regulation of Surface Coal Mining and Surface Effects of Underground Coal Mining (Note 2)	NA	13,741,371	
15.252	Abandoned Mine Land Reclamation (AMLR) Program	NA	8,947,651	
15.615	Cooperative Endangered Species Conservation Fund	NA	28,443	
U.S. Small Business Administration				
Direct Program:				
59.045	Natural Resource Development	NA	35,633	
U.S. Tennessee Valley Authority				
Direct Program:				
62.001	TVA Environmental Research Center	NA	42,428	

COMMONWEALTH OF KENTUCKY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - BY STATE AGENCY
FEDERAL ASSISTANCE PROGRAMS
FOR THE YEAR ENDED JUNE 30, 1997

State Agency Federal Grantor CFDA # Program Title		Pass - Through Grantor's #	Expenditures	
			Cash	Noncash
NATURAL RESOURCES AND ENVIRONMENTAL PROTECTION CABINET (CONTINUED)				
U.S. Environmental Protection Agency				
Direct Programs:				
66.001	Air Pollution Control Program Support	NA	1,940,951	
66.419	Water Pollution Control - State and Interstate Program Support	NA	1,113,203	
66.432	State Public Water System Supervision	NA	771,151	
66.435	Water Pollution Control - Lake Restoration Cooperative Agreements (Note 16)	NA		
66.438	Construction Management Assistance	NA	347,013	
66.454	Water Quality Management Planning	NA	194,686	
66.460	Nonpoint Source Implementation Grants	NA	992,459	
66.461	Wetlands Protection - Development Grants	NA	201,682	
66.463	National Pollutant Discharge Elimination System Related State Program Grants	NA	457,679	
66.467	Wastewater Operator Training Grant Program (Technical Assistance)	NA	40,013	
66.606	Surveys, Studies, Investigations, and Special Purpose Grants	NA	166,212	
66.701	Toxic Substances Compliance Monitoring Cooperative Agreements	NA	153,615	
66.708	Pollution Prevention Grants Program	NA	94,675	
66.801	Hazardous Waste Management State Program Support	NA	1,542,776	
66.802	Superfund State Site - Specific Cooperative Agreements	NA	300,998	
66.804	State Underground Storage Tanks Program	NA	186,675	
66.805	Leaking Underground Storage Tank Trust Fund Program	NA	1,053,187	
66.808	Solid Waste Management Assistance	NA	28,061	
66.809	Superfund State Core Program Cooperative Agreements	NA	102,279	
Passed Through From Kentucky Infrastructure Authority:				
66.458	Capitalization Grants for State Revolving Funds (Note 2)	NA	815,417	

COMMONWEALTH OF KENTUCKY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - BY STATE AGENCY
FEDERAL ASSISTANCE PROGRAMS
FOR THE YEAR ENDED JUNE 30, 1997

State Agency Federal Grantor CFDA # Program Title	Pass - Through Grantor's #	Expenditures	
		Cash	Noncash

NATURAL RESOURCES AND ENVIRONMENTAL PROTECTION CABINET (CONTINUED)

U.S. Department of Energy

Direct Programs:

81.039	National Energy Information	NA	5,433
81.041	State Energy Program	NA	450,403
81.050	Energy Extension Service	NA	49,052
81.052	Energy Conservation for Institutional Buildings	NA	35,127
81.502	Paducah Gaseous Diffusion Plant Environmental Monitoring and Oversight	NA	1,154,548

U.S. Federal Emergency Management Agency

Passed Through From Department of Military Affairs:

83.105	Community Assistance Program - State Support Services Element (CAP-SSSE)	NA	60,738
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Subtotal Natural Resources and Environmental Protection Cabinet

36,623,107	6,459,608
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DEPARTMENT OF PARKS

U.S. Department Of Commerce

Direct Program:

NA	Economic Development Act of 1965 (Note 16)	NA
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U.S. National Foundation On The Arts And The Humanities

Direct Program:

45.301	Institute of Museum Services	NA	18,930
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Subtotal Department of Parks

18,930

COMMONWEALTH OF KENTUCKY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - BY STATE AGENCY
FEDERAL ASSISTANCE PROGRAMS
FOR THE YEAR ENDED JUNE 30, 1997

State Agency Federal Grantor CFDA # Program Title		Pass - Through Grantor's #	Expenditures	
			Cash	Noncash
DEPARTMENT OF PUBLIC ADVOCACY				
<u>U.S. Department of Justice</u>				
Passed Through From Justice Cabinet - Division of Grants Management:				
16.579	Byrne Formula Grant Program	NA	45,450	
<u>U.S. Department of Education</u>				
Direct Program:				
84.240	Program of Protection and Advocacy of Individual Rights	NA	115,846	
Passed Through From Workforce Development Cabinet - Department For The Blind:				
84.224	State Grants for Assistive Technology	NA	90,003	
<u>U.S. Department of Health and Human Services</u>				
Direct Programs:				
93.138	Protection and Advocacy for Individuals with Mental Illness	NA	246,833	
93.630	Developmental Disabilities Basic Support and Advocacy Grants		450,203	
			948,335	
Subtotal Department of Public Advocacy				
PUBLIC SERVICE COMMISSION				
<u>U.S. Department Of Transportation</u>				
Direct Program:				
20.700	Pipeline Safety	NA	217,038	
			217,038	
Subtotal Public Service Commission				

COMMONWEALTH OF KENTUCKY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - BY STATE AGENCY
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State Agency Federal Grantor CFDA # Program Title		Pass - Through Grantor's #	Expenditures	
			Cash	Noncash
REVENUE CABINET				
<u>U.S. Department Of Transportation</u>				
Direct Program:				
NA	Joint Federal/State Motor Fuel Tax Compliance Project	NA	43,729	
<i>Subtotal Revenue Cabinet</i>			43,729	
DEPARTMENT OF KENTUCKY STATE POLICE				
<u>U.S. Department of Agriculture</u>				
Direct Program:				
NA	Forestry Marijuana Suppression	NA	16,848	
<u>U.S. Department of Justice</u>				
Direct Program:				
16.560	Justice Research, Development, and Evaluation Project Grants	NA	112,452	
16.574	DRUGFIRE Equipment Program	NA	25,817	
16.592	Local Law Enforcement Block Grants Program	NA	344,718	
16.710	Public Safety Partnership and Community Policing Grants	NA	35,700	
NA	Criminal Justice Discretionary Grant Program	NA	626,399	
Passed Through From Justice Cabinet - Division of Grants Management:				
16.579	Byrne Formula Grant Program	NA	2,488,231	
<u>U.S. Department Of Transportation</u>				
Direct Program:				
20.600	Highway and Community Safety	NA	2,141,932	

COMMONWEALTH OF KENTUCKY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - BY STATE AGENCY
FEDERAL ASSISTANCE PROGRAMS
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State Agency Federal Grantor CFDA # Program Title		Pass - Through Grantor's #	Expenditures	
			Cash	Noncash
DEPARTMENT OF KENTUCKY STATE POLICE (CONTINUED)				
<u>U.S. Federal Emergency Management Agency</u>				
Direct Program:				
83.100	Flood Insurance	NA	7,953	
<u>U.S. Department of Education</u>				
Passed Through From Cabinet for Families and Children and Cabinet for Health Services:				
84.186	Safe and Drug-Free Schools and Communities - State Grants	NA	51,040	
<i>Subtotal Department of Kentucky State Police</i>			5,851,090	
TOURISM DEVELOPMENT CABINET				
<u>U.S. Department of Commerce</u>				
Passed Through From Department for Local Government:				
11.305	Economic Development - State and Local Economic Development Planning	NA	45,400	
<u>U.S. Department of Transportation</u>				
Passed Through From Transportation Cabinet:				
20.205	Highway Planning and Construction (Note 2)	NA	3,674	
<i>Subtotal Tourism Development Cabinet</i>			49,074	

COMMONWEALTH OF KENTUCKY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - BY STATE AGENCY
FEDERAL ASSISTANCE PROGRAMS
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			Cash	Noncash
TRANSPORTATION CABINET				
<u>U.S. Department of Transportation</u>				
Direct Programs:				
20.106	Airport Improvement Plan	NA	313,393	
20.205	Highway Planning and Construction (Note 2) (Note 6)	NA	285,067,252	
20.218	Motor Carrier Safety Assistance Program	NA	1,867,639	
20.308	Local Rail Freight Assistance	NA	280,511	
20.505	Federal Transit Technical Studies Grants	NA	285,924	
20.509	Public Transportation For Nonurbanized Areas	NA	3,842,476	
20.513	Capital Assistance Program for Elderly Persons and Persons with Disabilities	NA	1,009,346	
Passed Through From Department of Kentucky State Police:				
20.600	State and Community Highway Safety	FIS-96-02	27,027	
<u>U.S. Department of Energy</u>				
Passed Through From Natural Resources and Environmental Protection Cabinet:				
81.041	State Energy Program	MA17628	2,800	
<i>Subtotal Transportation Cabinet</i>			292,696,368	
DEPARTMENT OF TRAVEL				
<u>U.S. Appalachian Regional Commission</u>				
Direct Program:				
NA	Regional Tourism Initiative	NA	31,733	
<i>Subtotal Department of Travel</i>			31,733	

COMMONWEALTH OF KENTUCKY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - BY STATE AGENCY
FEDERAL ASSISTANCE PROGRAMS
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State Agency Federal Grantor CFDA # Program Title	Pass - Through Grantor's #	Expenditures	
		Cash	Noncash

UNIFIED PROSECUTORIAL SYSTEM

U.S. Department of Justice

Passed Through From Justice Cabinet - Division of Grants Management:

16.575	Crime Victim Assistance	NA	317,940
16.588	Violence Against Women Formula Grants	NA	71,183

U.S. Department of Transportation

Passed Through From Department of Kentucky State Police:

20.600	State and Community Highway Safety	NA	14,933
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U.S. Department of Health And Human Services

Passed Through From Cabinet for Families and Children and Cabinet for Health Services:

93.643	Children's Justice Grants to States	NA	12,472
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<i>Subtotal Unified Prosecutorial System</i>			416,528
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WORKFORCE DEVELOPMENT CABINET

U. S. Department of Agriculture

Passed Through From Cabinet for Families and Children and Cabinet for Health Services:

10.561	State Administrative Matching Grants for Food Stamp Program	NA	2,071,606
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U.S. Department of Labor

Direct Programs:

17.002	Labor Force Statistics	NA	709,723
17.207	Employment Services (Note 2)	NA	12,438,300
17.225	Unemployment Insurance (Note 2) (Note 7)	NA	260,414,458
17.245	Trade Adjustment Assistance - Workers	NA	7,830,001

COMMONWEALTH OF KENTUCKY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - BY STATE AGENCY
FEDERAL ASSISTANCE PROGRAMS
FOR THE YEAR ENDED JUNE 30, 1997

State Agency Federal Grantor CFDA # Program Title		Pass - Through Grantor's #	Expenditures	
			Cash	Noncash
WORKFORCE DEVELOPMENT CABINET (CONTINUED)				
<u>U.S. Department of Labor (Continued)</u>				
Direct Programs (Continued):				
17.246	Employment and Training Assistance-Dislocated Workers (Note 2)	NA	11,505,565	
17.250	Job Training Partnership Act (Note 2)	NA	24,869,382	
17.801	Disabled Veterans' Outreach Program	NA	819,415	
17.804	Local Veterans' Employment Representative Program	NA	883,136	
<u>U.S. Appalachian Regional Commission</u>				
Direct Program:				
23.012	Appalachian Vocational and Other Education Facilities and Operations	NA	34,707	
<u>U.S. Department of Education</u>				
Direct Programs:				
84.002	Adult Education - State Grant Program	NA	4,871,139	
84.007	Federal Supplemental Educational Opportunity Grants	NA	205,744	
84.033	Federal Work-Study Program	NA	180,298	
84.048	Vocational Education - Basic Grants to States (Note 2)	NA	10,270,568	
84.049	Vocational Education - Consumer and Homemaking Education	NA	22,607	
84.053	Vocational Education - State Councils	NA	146,496	
84.063	Federal Pell Grant Program	NA	5,611,179	
84.126	Rehabilitation Services - Vocational Rehabilitation Grants to States (Note 2)	NA	36,006,446	
84.161	Rehabilitation Services - Client Assistance Program	NA	126,160	
84.169	Independent Living - State Grants	NA	387,421	
84.174	Vocational Education - Community Based Organizations	NA	31,094	
84.177	Rehabilitation Service - Independent Living Services for Older Individuals Who are Blind	NA	154,289	
84.181	Special Education - Grants for Infants and Families with Disabilities	NA	153,901	

COMMONWEALTH OF KENTUCKY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - BY STATE AGENCY
FEDERAL ASSISTANCE PROGRAMS
FOR THE YEAR ENDED JUNE 30, 1997

State Agency Federal Grantor CFDA # Program Title		Pass - Through Grantor's #	Expenditures	
			Cash	Noncash
WORKFORCE DEVELOPMENT CABINET (CONTINUED)				
<u>U.S. Department of Education (Continued)</u>				
Direct Programs (Continued):				
84.187	Supported Employment Services for Individuals with Severe Disabilities	NA	572,143	
84.192	Adult Education - Literacy Training for Homeless Adults	NA	5	
84.198	Workplace Literacy Partnerships (Note 16)	NA		
84.224	State Grants for Assistive Technology	NA	759,713	
84.243	Tech-Prep Education	NA	1,576,513	
84.253	Supplementary State Grants for Facilities, Equipment, and Other Program Improvement Activities (Note 16)	NA		
84.254	State Literacy Resource Centers	NA	2,382	
84.257	National Institute for Literacy (Note 16)	NA		
84.265	Rehabilitation Training - State Vocational Rehabilitation Unit In-Service Training	NA	74,973	
84.278	School - to - Work Implementation Grant	NA	7,129,916	
<u>U.S. Department of Health and Human Services</u>				
Direct Programs:				
93.048	Special Programs for the Aging - Title IV - Training, Research, and Discretionary Projects and Programs		65,605	
93.563	Child Support Enforcement (Note 2)	NA	259	
Passed Through From Cabinet for Families and Children and Cabinet for Health Services:				
93.558	Temporary Assistance for Needy Families (Note 2)	NA	2,042,536	
93.561	Job Opportunities and Basic Skills Training	NA	2,541,105	
93.630	Development Disabilities Basic Support and Advocacy Grants	NA	30,000	
93.958	Block Grant for Community Mental Health Services	NA	56,067	

COMMONWEALTH OF KENTUCKY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - BY STATE AGENCY
FEDERAL ASSISTANCE PROGRAMS
FOR THE YEAR ENDED JUNE 30, 1997

State Agency Federal Grantor CFDA # Program Title		Pass - Through Grantor's #	Expenditures	
			Cash	Noncash
WORKFORCE DEVELOPMENT CABINET (CONTINUED)				
<u>U.S. Department of Veterans Affairs</u>				
Direct Program:				
NA	Veterans Administration - State Approving Agency		144,183	
<u>U.S. National Occupational Information Coordinating Committee</u>				
Direct Program:				
NA	National Occupational Information Coordinating Committee		94,122	
<i>Subtotal Workforce Development Cabinet</i>			394,833,157	
TOTAL SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS			3,737,566,910	418,300,649

COMMONWEALTH OF KENTUCKY
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
JUNE 30, 1997

Note 1 - Purpose of the Schedule and Significant Accounting Policies

Purpose of the Schedule - OMB Circular A-133, "Audits of States, Local Governments, and Non-Profit Organizations," requires a Schedule of Expenditures of Federal Awards showing each Federal financial assistance program as identified in the Catalog of Federal Domestic Assistance.

Basis of Presentation - The accompanying Schedule of Expenditures of Federal Awards is presented in accordance with OMB Circular A-133. As defined in that Circular, Federal financial assistance "... means assistance provided by a Federal agency in the form of grants, loans, loan guarantees, property (including donated surplus property), cooperative agreements, interest subsidies, insurance, food commodities or direct appropriations, but does not include direct Federal cash assistance to individuals. It includes awards received directly from Federal agencies, or indirectly through other units of State and local governments." Accordingly, the accompanying schedules include both cash and noncash Federal financial assistance programs. Those programs which have not been assigned a catalog number, or for which the catalog number was not available, have been shown either at the bottom of the relevant Federal grantor subheading or under the Other Federal Assistance subheading.

Reporting Entity - The accompanying schedules include all Federal financial assistance programs administered by the Commonwealth of Kentucky, except for those programs administered by the state universities. As allowed by the Single Audit Act of 1996 and Section 6c of OMB A-133 the Commonwealth elected to exclude state universities from the statewide single audit, except as part of the audit of the Commonwealth's general-purpose financial statements.

Basis of Accounting - The accompanying Schedule of Expenditures of Federal Awards - cash assistance programs are presented primarily on the basis of cash disbursements as modified by the application of KRS 45.229. Consequently, certain expenditures are recorded in the accounts only when cash is disbursed.

KRS 45.229 provides that the Finance and Administration Cabinet may, "... for a period of thirty (30) days after the close of any fiscal year, draw warrants against the available balances of appropriations made for that fiscal year, for the payment of expenditures incurred during that year or in fulfillment of contracts properly made during the year, but for no other purpose." However, there is an exception to the application of KRS 45.229 in that regular payroll expenses incurred during the last pay period of the fiscal year are charged to the next year.

The Commonwealth's general-purpose financial statements are presented on the accrual/modified accrual basis of accounting. Therefore, the Schedule of Expenditures of Federal Awards - cash assistance programs may not be directly traceable to the general-purpose financial statements in all cases.

COMMONWEALTH OF KENTUCKY

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

JUNE 30, 1997

(Continued)

Note 1 - Purpose of the Schedule and Significant Accounting Policies (Continued)

The schedules for the eight state agencies listed below account for 93 percent of the total expenditures of Federal awards - cash assistance programs. These agencies are presented on the modified cash basis of accounting as explained above.

Department of Education
Cabinet for Families and Children
Cabinet for Health Services
Department for Local Government
Department of Military Affairs
Natural Resources and Environmental Protection Cabinet
Transportation Cabinet
Workforce Development Cabinet

In addition, the Kentucky Housing Corporation, which accounts for 3 percent of the total expenditures of Federal awards - cash assistance programs, is presented on the accrual basis of accounting. The remaining state agencies' Schedule of Expenditures of Federal Awards - cash assistance programs are presented on the cash, modified cash, or accrual basis of accounting.

The Commonwealth's general-purpose financial statements are presented on the accrual/modified accrual basis of accounting. Therefore, the Schedule of Expenditures of Federal Awards - Cash Assistance Programs may not be directly traceable to the general-purpose financial statements in all cases.

The accompanying Schedule of Expenditures of Federal Awards - Noncash Assistance Programs present the noncash assistance expended by the Commonwealth during the period July 1, 1996, through June 30, 1997, using the method or basis of valuation as described in the Notes to the Schedule of Expenditures of Federal Awards for each program. These noncash assistance programs are not reported in the Commonwealth's general-purpose financial statements for the year ended June 30, 1997.

COMMONWEALTH OF KENTUCKY
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
JUNE 30, 1997
(Continued)

Note 1 - Purpose of the Schedule and Significant Accounting Policies (Continued)

Inter-agency Activity - Certain transactions relating to Federal financial assistance may appear in the records of more than one state agency. To avoid the overstatement of Federal expenditures, the following policies were adopted for the presentation of the Commonwealth's Schedule of Expenditures of Federal Awards:

- (a) Federal moneys may be received by one state agency (primary state agency - recipient) and passed through to another state agency (secondary state agency - subrecipient) where the moneys are expended. Except for pass throughs to state universities as discussed below, this inter-agency transfer activity is reported in the Commonwealth's Schedule of Expenditures of Federal Awards as follows:
 - Under the primary state agency, the Federal program is reported as a direct program. However, the transfer of money to the secondary state agency is not included in the primary state agency's expenditures.
 - Under the secondary state agency, the Federal program is reported as a pass-through program. The expenditure of the transferred moneys is reported in the secondary agency's expenditures.

Because the Commonwealth's schedules exclude Federal financial assistance related to state universities, when a state agency passes Federal money to a state university, this is reported in the schedules as an expenditure of that state agency.

- (b) Federal moneys received by a state agency and used to purchase goods or services from another state agency are reported in the Commonwealth's schedules only by the purchasing agency as an expenditure.

Intra-agency Activity - Federal moneys may be received by one organizational unit of a state agency and passed through to another organizational unit within the same agency and within the same program. This intra-agency transfer activity has been eliminated from the schedule.

Note 2 - Type A Programs

Under the provisions of OMB Circular A-133, a Type A program for the Commonwealth means any program for which total expenditures of federal financial assistance exceeded \$10 million. In relation to noncash federal financial assistance programs, this threshold is generally applied to the amount of assistance expended during the year as presented on the noncash portion of the Schedule of Expenditures of Federal Awards. In the case of guarantee type programs, this threshold is applied to the value of new guaranteed loans/debentures during the year, plus the balance of guaranteed loans/debentures from previous years for which the federal government was still at risk during the year, plus any interest subsidy, cash, or administrative costs allowance received. In relation to revolving loan type programs, this threshold is applied to the value of new loans during the year, plus the balance of loans from previous years which were outstanding during the year, plus the amount of interest income collected during the year.

COMMONWEALTH OF KENTUCKY
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
JUNE 30, 1997
(Continued)

Note 2 – Type A Programs (Continued)

The Commonwealth had 41 programs (cash and noncash) which met the Type A program definition for the year ended June 30, 1997, some of which were administered by more than one state agency. The Commonwealth identified four clusters, which included more than one federal program, among the Type A programs. These Type A programs were:

CFDA #	Program Title	Expenditures
10.550	Food Distribution	\$ 12,152,457
10.551	Food Stamps	391,085,496
10.553	School Breakfast Program	25,780,529 a
10.555	National School Lunch Program	83,727,788 a
10.556	Special Milk Program for Children	107,728 a
10.557	Special Supplemental Nutrition Program for Women, Infants, and Children	79,023,225
10.558	Child and Adult Care Food Program	13,101,042 a
10.559	Summer Food Services Program for Children	2,851,720 a
10.561	State Administrative Matching Grants for Food Stamp Program	28,842,198
14.182	Lower Income Housing Assistance Program – Section 8 New Construction/Substantial Rehabilitation	76,833,687
14.228	Community Development Block Grants/State's Program	27,282,998
14.239	HOME Investment Partnerships Program	11,418,719
15.250	Regulation of Surface Coal Mining and Surface Effects of Underground Coal Mining	13,741,371
17.207	Employment Services	12,438,300 b
17.225	Unemployment Insurance	260,414,458 b
17.246	Employment and Training Assistance – Dislocated Workers	11,505,565 c
17.250	Job Training Partnership Act	24,869,382 c
20.205	Highway Planning and Construction	285,121,675
59.041	Certified Development Company Loans (504 Loans)	20,069,466
66.458	Capitalization Grants for State Revolving Funds	36,351,118
83.516	Disaster Assistance	30,900,191
84.010	Title I Grants to Local Educational Agencies	119,427,418
84.027	Special Education - Grants to States	35,120,998
84.032	Federal Family Education Loans	73,376,118
84.048	Vocational Education – Basic Grants to States	15,876,248
84.126	Rehabilitation Services – Vocational Rehabilitation Grants to States	36,015,464
93.558	Temporary Assistance For Needy Families	103,157,779
93.560	Family Support Payments to States - Assistance Payments	61,294,194

COMMONWEALTH OF KENTUCKY
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
JUNE 30, 1997
(Continued)

Note 2 – Type A Programs (Continued)

93.563	Child Support Enforcement	29,245,034
93.568	Low-Income Home Energy Assistance	18,114,018
93.575	Child Care and Development Block Grant	20,590,217
93.596	Child Care Mandatory and Matching Funds of the Child Care Development Block Grant	16,705,057
93.658	Foster Care - Title IV-E	42,291,011
93.667	Social Services Block Grant	29,401,840
93.775	State Medicaid Fraud Control Units	669,555 d
93.777	State Survey and Certification of Health Care Providers and Suppliers	2,902,227 d
93.778	Medical Assistance Program	1,805,525,944 d
93.959	Block Grants for Prevention and Treatment of Substance Abuse	14,950,575
93.994	Maternal and Child Health Services Block Grant to the States	12,830,961
96.001	Social Security – Disability Insurance	28,275,987
NA	FHA/VA Insured Loans	<u>265,012,005</u>
<u>Total Type A Programs</u>		<u><u>4,178,401,763</u></u>

Identified clusters include:

- a** – Nutrition Cluster (Department of Education)
- b** – Employment Services Cluster (Workforce Development Cabinet)
- c** – JTPA Cluster (Workforce Development Cabinet)
- d** – Medicaid Cluster (Cabinet for Families and Children and Cabinet for Health Services)

COMMONWEALTH OF KENTUCKY
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
JUNE 30, 1997
(Continued)

Note 3 - Federally Assisted Loan Programs

The Commonwealth has several loan programs made possible with initial advances in prior years from the Federal government. In addition, some loan programs are guaranteed by the Federal government.

- a) The Kentucky Rural Rehabilitation Student Loan Program was initially awarded \$672,629 in 1970 by the U. S. Farmers Home Administration. Since 1970, the program has operated on interest from student loans outstanding and on income from investments in U.S. Treasury Bills and overnight investments. Investments in Treasury Bills totaled \$1,066,491 and student loans outstanding totaled \$80,706 as of June 30, 1997.

In June 1993, \$750,000 of the program's assets was deposited into six different banks for the establishment of an Agriculture and Agribusiness Internship and Scholarship Program to be jointly administered by the Department of Agriculture and the Governor's Scholars Program, Inc. \$500,000 was in certificates of deposit and \$250,000 was in an operating account. The revenues earned and expenditures made were not recorded in the Commonwealth of Kentucky's accounting records. In order to establish more accurate accountability and better tracking of the Rural Rehabilitation Fund private holdings were liquidated and deposited in the Treasury of the Commonwealth of Kentucky in December 1996. On December 9, 1996, a check in the amount of \$697,742.94 was designated as scholarship and investment monies. Another check in the amount of \$21,116.62 was designated as funding for the job interns program and deposited with the Department of Treasury. These checks were made payable to the Department of Agriculture from the Governor's Scholars Program. In February 1997, two more checks were received from the Governor's Scholars Program and deposited in the state system. These checks were for uncollected interest earned in the amount of \$1,055.16 and \$35.31 on the funds deposited by the Department of Agriculture in December 1997. The total investment of \$1,066,491.32 is the entire Rural Rehabilitation Fund, totally on deposit with and managed through the Office for Financial Management and Economic Analysis and recorded in the state accounting system (STARS).

- b) The Kentucky Appalachian Enterprise Development Loan Program (CFDA #23.001) had one loan outstanding during fiscal year ended June 30, 1997. This loan originated in the amount of \$210,000 and had an outstanding balance at June 30, 1997 of \$132,112. No new loans were incurred or paid off during the year ended June 30, 1997.
- c) The Commonwealth Small Business Development Corporation provides fixed asset loans to small businesses located in Kentucky. Loans, which are guaranteed by the U.S. Small Business Administration, are funded by financial institutions or by issuing debentures. At June 30, 1997, federal programs of the Commonwealth Small Business Development Corporation had issued debentures in the principal amount of \$34,554,000, of which the outstanding balance is \$20,069,466. This is a guarantee program only, and no federal assistance is received by the Corporation.

COMMONWEALTH OF KENTUCKY
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
JUNE 30, 1997
(Continued)

Note 3 - Federally Assisted Loan Programs (Continued)

- d) Kentucky Housing Corporation is awarded a yearly grant from the U.S. Appalachian Regional Commission. Some of these moneys are used to provide loans to qualified recipients. The loans are secured by notes and mortgages against property owned by the loan recipient. There were no loans outstanding under the Appalachian Regional Commission Contract 78-140 as of June 30, 1997.
- e) Total monies for the Gas System Restoration Project, administered by the Department for Local Government, consist of \$3,150,000 from the U. S. Economic Development Administration; \$500,000 from the U.S. Appalachian Regional Commission; and \$650,000 in state matching moneys, for a total commitment to the revolving loan program of \$4,300,000. All moneys had been received and paid out for loans as of June 30, 1997. In addition, principal and interest paid back may be paid out again for loans. The cumulative amount loaned as of June 30, 1997 was \$6,677,091. Cumulative principal payments received as of June 30, 1997 totaled \$1,243,699 and cumulative loans written-off as of June 30, 1997 were \$87,651, leaving a loans receivable balance of \$5,345,741 at June 30, 1997.
- f) The Kentucky Higher Education Student Loan Corporation issues revenue bonds in order to purchase student loans authorized under the Federal Family Education Loans program (CFDA #84.032). Substantially all loans made and purchased by the Kentucky Higher Education Student Loan Corporation are guaranteed by the Kentucky Higher Education Assistance Authority. The U.S. Department of Education provides for reinsurance of loans guaranteed by the Authority. Outstanding loans guaranteed under this program totaled \$1,625,864,000 as of June 30, 1997.

In addition to the Federal expenditures presented in the schedules of cash assistance programs for the Kentucky Higher Education Assistance Authority, the Kentucky Higher Education Student Loan Corporation also received interest benefits and a special allowance from the U.S. Department of Education. The Corporation's receipts disclosed below are not presented in the schedules since they are not offset by Federal expenditures:

- A portion of the interest due on outstanding student loans is paid by the U.S. Department of Education until such time as the student's repayment period should begin. In addition, the Corporation receives an amount equivalent to three percent per year on the unpaid principal amount during the repayment period for loans made prior to December 15, 1968. During the year ended June 30, 1997, the Corporation received \$7,970,944 in interest benefits, and \$1,735,001 was receivable at year-end.
- The Corporation also receives a special allowance on all program loans disbursed prior to October 1, 1981, and program loans disbursed on or after October 1, 1981, that qualify for interest benefits. During the year ended June 30, 1997, the Corporation received \$4,388,953 in special allowance payments, and \$995,226 was due from the federal government at year-end.

COMMONWEALTH OF KENTUCKY
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
JUNE 30, 1997
(Continued)

Note 3 - Federally Assisted Loan Programs (Continued)

- g) The Kentucky Infrastructure Authority administers a wastewater revolving loan program that is funded by the U.S. Environmental Protection Agency's Capitalization Grants For State Revolving Funds. During the year ended June 30, 1997, the Authority issued loans totaling \$34,536,200, with outstanding loans of \$162,371,425 at year end.
- h) The Kentucky Housing Corporation provides mortgage bank assistance in originating and processing FHA/VA insure housing loans. Loans guaranteed under this program were \$84,141,581 and \$203,441,242 during the years ended June 30, 1997, and 1996, respectively. At June 30, 1997, the total book value of the loans outstanding was \$265,012,005.

Note 4 - Activity Occurring in Noncash Programs With Inventoriable Items

The Cabinet for Families and Children and Cabinet for Health Services are pass-through entities for local organizations. The Cabinets receive, store, and distribute inventory items related to noncash programs. In these instances, all items received are distributed.

	Food Stamps Program CFDA #10.551
Beginning Inventory, July 1, 1996	\$ 89,432,485
Current Year Receipts	374,454,000
Current Year Distributions	(391,085,496)
Transfers/Losses/Adjustments	4,740,648
Ending Inventory, June 30, 1997	\$ 77,541,637

Note 5 - Food Distribution Inventories and Transferred Food

Records in the Department of Agriculture, Division of Food Distribution, show that shipments of USDA commodities received into distributors' warehouses are issued to subrecipients upon receipt. In addition, the Division operated a warehouse in Louisville, Kentucky, for the Commodity Supplemental Food Program (CFDA #10.565). The dollar value of the inventory, based on the USDA Commodity File dated May 1997, is as follows:

	CSFP Warehouse CFDA #10.565
Beginning Inventory - July 1, 1996	\$ 426,404
Adjustment	78,933
Adjusted Beginning Inventory	505,337
Received	919,162
Issued to Recipients	(1,132,879)
Damaged	(1,441)
Used for Demonstration	(34)
Ending Inventory, June 30, 1997	\$ 290,145

COMMONWEALTH OF KENTUCKY
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
JUNE 30, 1997
(Continued)

Note 6 - Highway Planning and Construction Program (CFDA #20.205)

The information reported for this program represents the activity of all open projects during the year ended June 30, 1997. These projects were funded from several apportionments. Apportionments refer to a Federal statutorily prescribed division or assignment of funds. The expenditures reflected on these schedules include expenditures for advance construction projects which are not yet under agreements with the Federal Highway Administration.

- Program Income - The Highway Planning and Construction Program earned program income in the Right-of-Way phase through the sale and rental of real property. Income earned in this manner was classified as negative expenditures resulting in a reduction to Federal income of \$246,915 for the year ended June 30, 1996.
- Prior Year Refunds - Expenditures for the program are shown net of prior year refunds resulting from a reimbursement of prior year expenditures. For the year ended June 30 1996, prior year refunds totaled \$1,913,499.

Note 7 - Unemployment Insurance (CFDA #17.225)

Payment of unemployment benefits in the amount of \$302,194,800 was received from the Unemployment Insurance Trust Fund. The Commonwealth paid out \$236,838,173 in benefits during the year ended June 30, 1997. The amounts shown on the accompanying schedules of Federal expenditures of Federal awards reflect both the amount expended for benefits from the Trust Fund and an additional \$23,576,285 of Federal funds expended for administration of the program, resulting in a combined total of \$260,414,458 Federal expenditures.

Note 8 - Outdoor Recreation - Acquisition, Development, and Planning (CFDA # 15.916)

Administrative costs are shown as expended when received from the Federal government. These costs are recovered through a negotiated fixed indirect cost rate. Any over or under recovery will be recouped in a future rate.

Note 9 - Joint Funding Administration

The Joint Funding Administration Program consists of grants from the following Federal agencies:

CFDA #	Agency
11.305	U.S. Department of Commerce
14.228	U.S. Department of Housing and Urban Development
16.579	U.S. Department of Justice
84.181	U.S. Department of Education

COMMONWEALTH OF KENTUCKY
 NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 JUNE 30, 1997
 (Continued)

Note 10 - Rental Housing Rehabilitation (CFDA #14.230)

U.S. Department of Housing and Urban Development money for the Rental Housing Rehabilitation Program was awarded to the Commonwealth and administered by the Department for Local Government, Division of Community Programs. Eligible communities made application to the Department, and funds were awarded based on selection criteria and the availability of funds. A unique concept of the Rental Rehabilitation Program was the Cash and Management Information (C/MI) System (now being used for the HOME Program). This system managed program funds, disbursed grant funds, and collected project and tenant data. The funds for this program were disbursed directly to the local recipient. Therefore, expenditures for this program were not recorded in the Commonwealth's accounting records. No administrative moneys were received by the Department for Local Government for the year ended June 30, 1997. In prior years, administrative moneys were received by the Department for Local Government and then passed on to local recipients. Agency records show the following cumulative amounts were expended for each grant year through June 30, 1997:

R-84-SG-21-0100	\$	914,900
R-87-SG-21-0100		1,080,000
R-88-SG-21-0100		1,233,000
R-89-SG-21-0100		1,070,000
R-90-SG-21-0100		708,487
R-91-SG-21-0100		276,749
	\$	<u>5,283,136</u>

Note 11 - Community Development Block Grants/State's Program (CFDA #14.228)

The Commonwealth matches the Federal portion of administration dollar for dollar. Cash expenditures include the Federal portion of administration.

Note 12 - Cabinet for Families and Children and Cabinet for Health Services

In July 1996, the Governor issued Executive Order 96-862 abolishing the Cabinet for Human Resources and providing for its reorganization into two new cabinets – the Cabinet for Families and Children and the Cabinet for Health Services. Expenditures involving Federal awards were not specifically separated into the two new cabinets during the year ended June 30, 1997; therefore, a combined Schedule of Expenditures of Federal Awards is presented.

COMMONWEALTH OF KENTUCKY
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
JUNE 30, 1997
(Continued)

Note 13 - Conditional Projects

The Department of Fish and Wildlife Resources leases land from the U.S. Army Corps of Engineers for Condition 5 and Condition 3 Projects. These projects stipulate that the acreage leased be managed for wildlife purposes. Part of the management can include leasing the land for farming practices. If this election is made, the Department will advertise for bids and accept the highest proposal. The bidder (farmer) then remits his bid price to the Department, which must account for this income. Condition 5 guidelines require that the income be used on the area within the next five years to promote wildlife. Similarly, Condition 3 Projects require the income to be used within the next three years. If the moneys are not used in this period of time, the unexpended balance reverts to the U.S. Army Corps of Engineers.

Currently, three areas under Condition 5 guidelines are under operation. Income from each area is relatively consistent each year. Receipts during 1997 were:

Barren River WMA	\$	58,683
Grassy Pond WMA	\$	49,403
Green River WMA	\$	23,461

In addition, three areas under Condition 3 guidelines are under operation. Receipts during 1997 were:

Dewey Lake WMA	\$	125
Barlow Bottoms	\$	44,348
Whitley City	\$	89,200

Note 14 - Manufactured Home Construction Program

The Department of Housing, Buildings, and Construction entered into a cooperative agreement with the U.S. Department of Housing and Urban Development on July 15, 1976, whereby the Department of Housing, Buildings, and Construction inspects all manufactured housing shipped into the state of Kentucky. The U.S. Department of Housing and Urban Development pays \$9.00 per floor of each new manufactured home whose location, after leaving the manufacturing plant, is on the premises of a distributor, dealer, or purchaser in Kentucky. An additional, \$2.50 per home is received for homes manufactured within the Commonwealth of Kentucky. These services are performed in connection with the National Mobile Home Construction and Safety Standards Act of 1974.

For these services, the Department of Housing, Buildings, and Construction received \$138,342 in fiscal year 1997. The Department's expenditures are not relevant since this agreement uses Department personnel, materials, and equipment for services regardless of the Department's cost.

COMMONWEALTH OF KENTUCKY
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
JUNE 30, 1997
(Continued)

Note 15 – Subrecipient Activity

As required by OMB Circular A-133, the following list summarizes the amount of federal funds sent to subrecipients:

CFDA #	Federal Program Name	Total Amount Sent to Subrecipients
10.550	Food Distribution	\$ 12,152,457
10.553	School Breakfast Program	25,608,326
10.555	National School Lunch Program	83,443,010
10.556	Special Milk Program for Children	107,728
10.558	Child and Adult Care Food Program	12,814,931
10.559	Summer Food Services Program for Children	2,795,015
10.561	State Administrative Matching Grants For Food Stamp Program	2,422,470
10.569	Emergency Food Assistance Program	1,735,206
10.664	Cooperative Forestry Assistance	162,962
11.305	Economic Development – State and Local Economic Development Planning	100,000
12.002	Procurement Technical Assistance for Business Firms	15,830
12.113	State Memorandum of Agreement Program for the Reimbursement of Technical Services	398,302
14.228	Community Development Block Grant/States Program	27,453,613
14.231	Emergency Shelter Grants Program	1,167,756
14.238	Shelter Plus Care	139,601
14.239	HOME Investment Partnerships Program	6,949,367
14.241	Housing Opportunities for Persons with AIDS	54,496
14.401	Fair Housing Assistance Program – State and Local	67,222
15.250	Regulation of Surface Coal Mining and Surface Effects of Underground Coal Mining	84,898
15.252	Abandoned Mine Land Reclamation (AMLR) Program	1,782,929
15.904	Historical Preservation Funds Grants-in-Aid	316,293
15.916	Outdoor Recreation – Acquisition, Development and Planning	147,656
16.001	TVA Environmental Research Center	41,325
16.540	Juvenile Justice and Delinquency Prevention – Allocation to States	7,219
16.548	Title V – Delinquency Prevention Program	211,064
16.575	Crime Victim Assistance	1,483,334
16.579	Byrne Formula Grant Program	6,302,368
16.579	Byrne Formula Grant Program	843,287
16.588	Violence Against Women Formula Grants	447,160
16.592	Local Law Enforcement Block Grants	13,010
16.710	Public Safety Partnership and Community Policing Grants	104,509
20.509	Public Transportation for Nonurbanized Areas	3,842,476
20.205	Highway Planning and Construction	10,925
20.505	Federal Transit Technical Studies Grants	285,924
20.509	Public Transportation for Nonurbanized Areas	3,842,476
20.513	Capital Assistance Program for Elderly Persons and Persons with Disabilities	1,009,346

COMMONWEALTH OF KENTUCKY
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
JUNE 30, 1997
(Continued)

Note 15 – Subrecipient Activity (Continued)

CFDA #	Federal Program Name	Total Amount Sent to Subrecipients
20.513	Capital Assistance Program for Elderly Persons and Persons with Disabilities	1,009,346
20.600	State and Community Highway Safety	1,209,131
20.703	Interagency Hazardous Materials Public Sector Training and Planning Grants	61,366
23.001	Appalachian Regional Commission	1,749,000
23.001	Appalachian Regional Development	65,000
23.002	Appalachian Supplements to Federal Grant-in-Aid (Area Development)	813,455
45.003	Promotion of the Arts – Arts in Education	150
45.024	Promotion of the Arts – Grants to Organizations and Individuals	130,234
45.025	Promotion of the Arts – Partnership Agreements	58,824
47.076	Education and Human Resources	1,786,595
66.454	Water Quality Management Planning	244,112
66.458	Capitalization Grants for State Revolving Funds	34,536,200
66.461	Wetlands Protection – Development Grants	102,235
66.463	National Pollutant Discharge Elimination System Related State Program Grants	98,087
66.606	Surveys, Studies, Investigations, and Special Purpose Grants	113,733
66.708	Pollution Prevention Grants Program	91,247
66.805	Leaking Underground Storage Tank Trust Fund Program	1,681
81.041	State Energy Program	11,440
81.052	Energy Conservation for Institutional Buildings	681,081
81.502	Paducah Gaseous Diffusion Plant Environmental Monitoring and Oversight	1,154,548
83.011	Hazardous Materials Training Program for Implementation of the Superfund Amendment and Reauthorization Act (SARA) of 1986	16,265
83.516	Disaster Assistance (Note 2)	32,697,717
83.521	Earthquake Hazards Reduction Grants	6,000
83.534	Emergency Management – State and Local Assistance	666,977
84.004	Civil Rights, Training, and Advisory Services	(2,501)
84.010	Title I Grants to Local Educational Agencies	117,899,748
84.011	Migrant Education - Basic State Grant Program	6,694,905
84.025	Services for Children with Deaf – Blindness	186,826
84.027	Special Education - State Grants	32,854,143
84.029	Special Education - Personnel Development and Parent Training	19,060
84.034	Public Library Service	421,862
84.035	Interlibrary Cooperation and Resource Sharing	131,515
84.048	Vocational Education - Basic Grants to States	5,286,981
84.049	Vocational Education - Consumer and Homemaking Education	53,745
84.073	National Diffusion Network	34,088
84.086	Special Education - Program for Severely Disabled Children	247,588

COMMONWEALTH OF KENTUCKY
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
JUNE 30, 1997
(Continued)

Note 15 – Subrecipient Activity (Continued)

CFDA #	Federal Program Name	Total Amount Sent to Subrecipients
84.126	Rehabilitation Services - Vocational Rehabilitation	(3,500)
84.151	Chapter 2 State Block Grants	133,801
84.154	Public Library Construction and Technology Enhancement	6,000
84.158	Secondary Education and Transitional Services for Youth with Disabilities	356,248
84.164	Eisenhower Mathematics and Science Education – State Grants	399,903
84.164	Eisenhower Mathematics and Science Education - State Grants	256,963
84.173	Special Education - Preschool Grants	9,204,161
84.185	Byrd Honors Scholarships	143,489
84.186	Safe and Drug-Free Schools and Communities – State Grants	129,681
84.186	Safe and Drug-Free School and Communities - State Grants	4,636,821
84.194	Bilingual Education Support Services	47,500
84.196	Education for Homeless Children and Youth	553,246
84.203	Star Schools	3,462,030
84.213	Even Start - State Educational Agencies	1,484,084
84.214	Even Start - Migrant Education	111,168
84.215	Fund for Improvement in Education	223,245
84.216	Capital Expenses	320,564
84.218	State School Improvement Grants	237,967
84.262	Minority Teacher Recruitment	(423)
84.276	Goals 2000 - State and Local Education Systemic Improvement Grants	3,113,176
84.281	Eisenhower Professional Development State Grants	820,263
84.281	Eisenhower Professional Development State Grants	2,573,718
84.298	Innovative Education Program Strategies	3,263,029
84.318	Technology Literacy Challenge Fund	461,959
93.558	Temporary Assistance For Needy Families	12,753,335
93.560	Family Support Payments To States – Assistance Payments	56,395
93.585	Empowerment Zones Program	4,635,883
93.630	Developmental Disabilities Basic Support and Advocacy Grants	65,957
93.643	Children’s Justice Grants To States	12,472
93.658	Foster Care – Title IV-E	977,806
93.667	Social Services Block Grant	3,650,759
93.669	Child Abuse And Neglect State Grants	23,848
93.938	Cooperative Agreement to Support Comprehensive School Health Programs to Prevent the Spread of HIV and Other Important Health Problems	22,500
93.938	Cooperative Agreement to Support Comprehensive School Health	
94.003	State Commissions	128,086
94.004	Learn and Serve America-School and Community Based Programs	2,422,623
94.004	Learn and Serve America - School and Community Based Programs	157,743.00

COMMONWEALTH OF KENTUCKY
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
JUNE 30, 1997
(Continued)

Note 15 – Subrecipient Activity (Continued)

CFDA #	Federal Program Name	Total Amount Sent to Subrecipients
94.006	Americorps	2,139,426
94.009	Training and Technical Assistance	52,911
NA	Chemical Stockpile Emergency Preparedness Program	1,725,532
NA	US Asia Environmental Partnership	17,000
NA	Kentucky IA Demonstration	3,198,453
	Total	<u>\$504,577,136</u>

Note 16 – Zero Expenditure Programs

These programs had no expenditures during the year ended June 30, 1997. They included programs with no activity during the year, such as old programs not officially closed out or new programs issued late in the fiscal year. They also included programs with activity other than expenditures.

COMMONWEALTH OF KENTUCKY
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
JUNE 30, 1997
(Continued)

Note 17 - Noncash Expenditure Programs

The Kentucky had 15 noncash programs for the year ended June 30, 1997. These noncash programs and a description of the method/basis of valuation included:

CFDA #	STATE AGENCY	PROGRAM TITLE	AMOUNT	METHOD/BASIS OF VALUATION
10.550	Department of Corrections	Food Distribution	\$ 29,915	Value of Product Received from USDA Office.
10.550	Department of Agriculture	Food Distribution	12,122,542	USDA's value at the time of delivery to recipient agencies.
10.551	Cabinet for Families and Children	Food Stamps	391,085,496	Coupon Value.
10.565	Department of Agriculture	Commodity Supplemental Food Program	1,134,354	Quantity issued to recipients valued at USDA's May 1997 prices.
10.569	Department of Agriculture	Emergency Food Assistance Program	1,735,206	Dollar value per pound as of date of distribution as listed in the Federal price file provided to states by the USDA.
10.664	Natural Resources and Environmental Protection Cabinet	Cooperative Forestry Assistance	6,374,138	Original Federal acquisition cost of surplus fire fighting vehicles and equipment.
39.003	Finance and Administration Cabinet	Donation of Federal Surplus Personal Property	2,511,487	23.3% of Federal acquisition cost.
59.041	Commonwealth Small Business Development Corporation	Certified Development Company Loans (504 Loans)	(Note 3c)	
93.116	Cabinet for Families and Children	Project Grants and Cooperative Agreements for Tuberculosis Control Programs	112,044	Per authorized award for personnel costs and travel.
93.268	Cabinet for Families and Children	Childhood Immunization Grants	2,918,624	Per authorized award for vaccine and personnel costs.
93.940	Cabinet for Families and Children	HIV Prevention Activities – Health Department Based	110,253	Per authorized award for personnel and other costs.
93.977	Cabinet for Families and Children	Preventive Health Services – Sexually Transmitted Diseases Control Grants	76,120	Per authorized award for personnel costs and travel.

COMMONWEALTH OF KENTUCKY
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
JUNE 30, 1997
(Continued)

Note 17 - Non Cash Expenditure Programs (Continued):

CFDA #	STATE AGENCY	PROGRAM TITLE	AMOUNT	METHOD/BASIS OF VALUATION
93.988	Cabinet for Families and Children	Cooperative Agreements for State-Based Diabetes Control Programs and Evaluation of Surveillance Systems	5,000	Per authorized award for travel.
NA	Kentucky Housing Corporation	FHA/VA Insured Loans	(Note 3h)	
NA	Natural Resources and Environmental Protection Cabinet	Memorandum of Agreement #68- 5C16-019	45,470	Soil conservation service assists state in paying the amount of salary in excess of \$24,000.
NA	Natural Resources and Environmental Protection Cabinet	Kentucky Lock and Dam #10	40,000	Estimated by Appraisal Branch of U.S. Army Corps of Engineers.
			<u>\$ 418,300,649</u>	

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**Report on Compliance and on Internal Control Over Financial Reporting
Based on an Audit of the General-Purpose Financial Statements
Performed in Accordance With
*Government Auditing Standards***

John P. McCarty, Secretary
Finance and Administration Cabinet
Room 383, Capitol Annex
Frankfort, Kentucky 40601

Dear Secretary McCarty:

We have audited the general-purpose financial statements of the Commonwealth of Kentucky as of and for the year ended June 30, 1997, and have issued our report thereon dated September 30, 1998. We conducted our audit in accordance with generally accepted government auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Commonwealth of Kentucky's financial statements are free of material misstatement, we performed tests of compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Commonwealth of Kentucky's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Commonwealth of Kentucky's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying schedule of findings and questioned costs as items 97-CHS-1, 97-FAC-2 through 97-FAC-6, 97-KHPA-7, and 97-Personnel-8 through 97-Personnel-10.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we consider items 97-C&I-11, 97-KHPA-12 through 97-KHPA-20, 97-KY KARE-21, 97-PST-22, and 97-REV-23 through 97-REV-26 to be material weaknesses.

This report is intended for the information of management and applicable federal agencies and pass-through entities. However, this report, upon release by the Auditor of Public Accounts, is a matter of public record and its distribution is not limited.

Sincerely,

A handwritten signature in black ink, appearing to read "Ed Hatchett", with a stylized flourish at the end.

Edward B. Hatchett, Jr.
Auditor of Public Accounts

**Report on compliance With Requirements Applicable to Each
Major Program and on Internal Control Over Compliance in
Accordance With OMB Circular A-133 and on the
Schedule of Expenditures of Federal Awards**

John P. McCarty, Secretary
Finance and Administration Cabinet
Room 383, Capitol Annex
Frankfort, Kentucky 40601

Dear Secretary McCarty:

Compliance

We have audited the compliance of the Commonwealth of Kentucky with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 1997. The Commonwealth of Kentucky's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the Commonwealth of Kentucky's management. Our responsibility is to express an opinion on the Commonwealth of Kentucky's compliance based on our audit.

We conducted our audit of compliance in accordance with generally accepted auditing standards; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Commonwealth of Kentucky's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the Commonwealth of Kentucky's compliance with those requirements.

In our opinion, the Commonwealth of Kentucky complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 1997.

Internal Control Over Compliance

The management of the Commonwealth of Kentucky is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Commonwealth of Kentucky's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

We noted certain matters involving the internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect the Commonwealth of Kentucky's ability to administer a major federal program in accordance with the applicable requirements of laws, regulations, contracts, and grants. Reportable conditions are described in the accompanying schedule of findings and questioned costs as items 97-CFC-28 through 97-CFC-43, 97-CHS-44 through 97-CHS-49, 97-Military Affairs-50, 97-TC-51, 97-TC-52, and 97-WFDC-53.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with the applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we consider items 97-CHS-54 through 97-CHS-56 to be material weaknesses.

Schedule of Expenditures of Federal Awards

We have audited the general-purpose financial statements of the Commonwealth of Kentucky as of and for the year ended June 30, 1997, and we have issued a report thereon dated September 30, 1998. Our audit was performed for the purpose of forming an opinion on the general-purpose financial statements taken as a whole. The accompanying

Secretary John P. McCarty
Page Three

Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the general-purpose financial statements. Such information has been subjected to the auditing procedures applied in the audit of the general-purpose financial statements.

The general-purpose financial statements of the Commonwealth of Kentucky are prepared on an accrual/modified accrual basis of accounting. However, the Schedule of Expenditures of Federal Awards of the Commonwealth of Kentucky is prepared on the basis of cash disbursements as modified by the application of KRS 45.229. Consequently, certain expenditures are recorded in the accounts only when cash is disbursed. Accordingly, the Schedule of Expenditures of Federal Awards is not intended to present the expenditures of federal awards in conformity with generally accepted accounting principles.

In our opinion, except for the effect of the application of a different basis of accounting as explained above, the Schedule of Expenditures of Federal Awards is fairly stated, in all material respects, in relation to the Commonwealth of Kentucky's general-purpose financial statements taken as a whole.

This report is intended for the information of management and applicable federal agencies and pass-through entities. However, this report, upon release by the Auditor of Public Accounts, is a matter of public record and its distribution is not limited.

Sincerely,

A handwritten signature in black ink, appearing to read "Ed Hatchett", with a stylized flourish at the end.

Edward B. Hatchett, Jr.
Auditor of Public Accounts

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COMMONWEALTH OF KENTUCKY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE YEAR ENDED JUNE 30, 1997

SECTION 1 – SUMMARY OF AUDITOR’S RESULTS

Financial Statement Accounts and Schedule of Expenditures of Federal Awards

Financial Statement Accounts: We issued an unqualified opinion on the Commonwealth of Kentucky's general-purpose financial statements as of and for the fiscal year ended June 30, 1997.

Schedule of Expenditures of Federal Awards: We issued a qualified opinion on the Commonwealth of Kentucky’s Schedule of Expenditures of Federal Awards because the schedule was presented on a basis of accounting that was not in conformance with generally accepted accounting principles as described in Note 1 of the schedule. The opinion was issued in relation to the Commonwealth of Kentucky’s general-purpose financial statements taken as a whole.

Internal Control Over Financial Reporting: Our consideration of the Commonwealth of Kentucky’s internal control over financial reporting disclosed twenty-four reportable conditions. We believe that fourteen of the reportable conditions are material weaknesses. The reportable conditions and material weaknesses, which were disclosed during our audit of the general-purpose financial statements of the Commonwealth of Kentucky, are applicable to the following:

<u>AGENCY</u>	<u>NUMBER & TYPE OF FINDINGS</u>	
	<u>REPORTABLE</u>	<u>MATERIAL</u>
Kentucky Kare Health Insurance Plan (97-KY Kare-21)		1
Cash and Investment Functions of the Kentucky State Treasurer's Office and the Office of Financial Management and Economic Analysis (97-C&I-11).		1
Personnel Cabinet (97-Personnel-8 through 97-Personnel-10).	3	
Finance and Administration Cabinet (97-FAC-2 through 97-FAC-6).	5	
Revenue Cabinet (97-REV-23 through 97-REV-26).		4
Cabinet for Health Services (97-CHS-1)	1	
Kentucky Health Purchasing Alliance (97-KHPA-7 - reportable conditions) (97-KHPA-13 through 97-KHPA-20 - material weaknesses)	1	8

The reportable conditions and material weaknesses are presented in detail in Section II Financial Statement Findings of the "Schedule of Findings and Questioned Costs" (see page 103).

Compliance: In relation to the audit of the Commonwealth of Kentucky's general purpose financial statements, and the Schedule of Expenditures of Federal Awards, the results of our tests disclosed six instances of noncompliance that are required to be reported under generally accepted government auditing standards. These instances of noncompliance disclosed during our tests are considered material and are applicable to the following agencies of the Commonwealth of Kentucky:

<u>AGENCY</u>	<u>NUMBER & TYPE OF FINDINGS</u>	
	<u>REPORTABLE</u>	<u>MATERIAL</u>
The Office of the Petroleum Storage Tank Environmental Assurance Fund (97-PST-22)		1
Kentucky Health Purchasing Alliance (97-KHPA-12 through 97-KHPA-16).		5

The instances of material noncompliance are presented in Section II (Financial Statement Findings) of the "Schedule of Findings and Questioned Costs" (see page 103).

Federal Awards

Internal Control Over Major Programs: Our consideration of the Commonwealth of Kentucky's internal control over compliance disclosed twenty-seven reportable conditions. We believe that three of the reportable conditions are material weaknesses. The reportable conditions and material weaknesses, which were disclosed during our audit conducted in accordance with OMB Circular A-133, are applicable to the following agencies of the Commonwealth of Kentucky:

<u>AGENCY</u>	<u>NUMBER & TYPE OF FINDINGS</u>	
	<u>REPORTABLE</u>	<u>MATERIAL</u>
Cabinet for Health Services (97-CHS-44 through 97-CHS-49 - reportable conditions) (97-CHS-54 through 97-CHS-56 – material weaknesses)	6	3
Cabinet for Families and Children (97-CFC-28 through 97-CFC-43).	16	
Transportation Cabinet (97-TC-51 and 97-TC-52)	2	

The reportable conditions and material weaknesses relative to the Commonwealth of Kentucky's internal control over compliance are presented in Section III (Federal Awards Findings and Questioned Costs) of the "Schedule of Findings and Questioned Costs" (see page 149).

Compliance for Major Programs: We issued an unqualified opinion on the Commonwealth of Kentucky's compliance with the requirements applicable to each of its major Federal programs. However, the results of our auditing procedures disclosed six instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133, section 510(a). These findings are applicable to the following agencies of the Commonwealth of Kentucky:

<u>AGENCY</u>	<u>NUMBER & TYPE OF FINDINGS</u>	
	<u>REPORTABLE</u>	<u>MATERIAL</u>
Department of Military Affairs (97-Military Affairs-50)	1	
Workforce Development Cabinet (97-WFDC-53).	1	
Transportation Cabinet (97-TC-51 and 97-TC-52).	2	
Cabinet for Health Services (97-CHS-46 – reportable condition) (97-CHS-55 – material weakness)	1	1

The findings relative to compliance with requirements applicable to each of its major Federal programs are presented in Section III (Federal Awards Findings and Questioned Costs) of the "Schedule of Findings and Questioned Costs" (see page 149).

Identification of Major Programs

	<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
	10.550	Food Distribution
	10.551	Food Stamps Program
a	10.553	School Breakfast Program
a	10.555	National School Lunch Program
a	10.556	Special Milk Program for Children
	10.557	Special Supplemental Nutrition Program for Women, Infants, and Children
a	10.558	Child and Adult Care Food Program
a	10.559	Summer Food Services Program for Children
	10.561	State Administrative Matching Grants for Food Stamp Program
	14.182	Lower Income Housing Assistance Program – Section 8 New Construction/Substantial Rehabilitation
	14.228	Community Development Block Grants/State's Program
	14.239	HOME Investment Partnerships Program
	15.250	Regulation of Surface Coal Mining and Surface Effects of Underground Coal Mining
b	17.207	Employment Services
b	17.225	Unemployment Insurance
c	17.246	Employment and Training Assistance – Dislocated Workers
c	17.250	Job Training Partnership Act

Identification of Major Programs (Continued)

20.205	Highway Planning and Construction
59.041	Certified Development Company Loans (504 Loans)
66.458	Capitalization Grants for State Revolving Funds
83.516	Disaster Assistance
84.010	Title I Grants To Local Educational Agencies
84.027	Special Education – Grants to States
84.032	Federal Family Education Loans
84.048	Vocational Education – Basic Grants to States
84.126	Rehabilitation Services – Vocational Rehabilitation Grants to States
93.558	Temporary Assistance for Needy Families
93.560	Family Support Payments to States – Assistance Payments
93.563	Child Support Enforcement
93.568	Low-Income Home Energy Assistance
93.575	Child Care and Development Block Grant
93.596	Child Care Mandatory and Matching Funds of the Child Care and Development Fund
93.658	Foster Care – Title IV-E
93.667	Social Services Block Grant
d 93.775	State Medicaid Fraud Control Units
d 93.777	State Survey and Certification of Health Care Providers and Suppliers
d 93.778	Medical Assistance Program
93.959	Block Grants for Prevention and Treatment of Substance Abuse
93.994	Maternal and Child Health Services Block Grant to the States
96.001	Social Security – Disability Insurance
N/A	FHA/VA Insured Loans

Identified clusters include:

- a** – Nutrition Cluster (Department of Education)
- b** – Employment Services Cluster (Workforce Development Cabinet)
- c** – JTPA Cluster (Workforce Development Cabinet)
- d** – Medicaid Cluster (Cabinet for Families and Children and Cabinet for Health Services)

Dollar Threshold Used to Distinguish Between Type A and Type B Programs

The maximum dollar threshold used to distinguish between Type A and Type B Programs was \$10,000,000. Certain component units and agencies audited by Certified Public Accounting firms had lower dollar thresholds.

Auditee Qualify as Low-Risk Auditee?

The Commonwealth of Kentucky did not qualify as a low-risk auditee.

**COMMONWEALTH OF KENTUCKY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 1997**

SECTION 2 – FINANCIAL STATEMENT FINDINGS

Reportable Conditions Relating to Internal Controls and/or Compliance:

FINDING 97-CHS-1: The Cabinet For Health Services Should Strengthen Controls Over Estimation Of Contingent Liabilities

State Agency: Cabinet For Health Services

As noted in the 1996 audit, the Cabinet for Health Services (CHS) did not have standardized procedures to calculate estimates of loss and estimates of probability of loss for contingent liabilities. Additionally, there was no supporting documentation for the contingent liability status report used to prepare the year-end closing package. The agency acknowledged these weaknesses, but has not implemented our recommendations.

Without standardized procedures, such as items which should be included, estimates could vary significantly for similar cases due to different attorneys working on the cases. Further, the lack of supporting documentation for the estimates of the likelihood of loss, potential monetary damages, and changes in these estimates, make it difficult for someone other than the attorney handling the case to review and assess the reasonableness of the determinations.

Generally accepted accounting principles require the recordation of a liability if the loss is probable and the amount of the loss can be reasonably estimated. Good internal control practices dictate the use of standardized procedures and written documentation in order to make and support these accruals.

Recommendation

We recommend CHS institute standardized procedures for the estimation and documentation of information used to accrue contingent liabilities.

FINDING 97-CHS-1: The Cabinet For Health Services Should Strengthen Controls Over Estimation Of Contingent Liabilities

Management's Response and Corrective Action Plan

We concur. We presently have a system whereby these entries are documented. We will continue to ensure that all appropriate entries are timely documented. We agree that one process should be used as the legal department's estimation procedure. We have undertaken to remind all counsel that in calculating estimates for contingent liability status reports, all legal factors are to be considered and given appropriate weight, including questions of jurisdiction, venue, duties of care owed, defenses/immunities to prima facie claims and applicability of all legal doctrines, whether gleaned from common law or statutory law and with such puissance as is shown upon emergence from any appropriate litmus test for its constitutionality.

FINDING 97-FAC-2: Finance And Administration Cabinet Should Adequately Document And Improve Procedures For Preparing The Comprehensive Annual Financial Rreport

State Agency: Finance and Administration Cabinet

Procedures used by the Finance and Administration Cabinet's (FAC's) Reporting Branch for adjusting the Commonwealth's cash basis statements to conform to generally accepted accounting principles for presentation in the Comprehensive Annual Financial Report were not adequately documented and did not consistently result in conformance with GAAP. Specifically:

1. The removal process that occurs during the preparation of the CAFR lacks the proper internal control procedures to ensure that all accounts affecting the removal entities are removed. As a result, we noted the following:
 - The control list used to identify removal entities was not complete. FAC's procedures were inadequate to detect accounts which should have been moved or removed.
 - FAC uses a spreadsheet to obtain beginning balances for fund equity and cash. These amounts did not consistently agree to FAC reports, such as the 2170. FAC did not reconcile their its to FAC printouts.
 - The removal process involves many special circumstances, such as not removing certain Fund 01 and Fund 02 revenues, expenditures, etc. FAC did not adequately document the reasons for these type of occurrences.
2. The Reporting Branch did not have procedures to gather the information necessary to make the component unit pension disclosures required by Section P20.130 of the Codification of Governmental Accounting and Reporting Standards. As a result, pension disclosures were not made for component units participating in a plan other than one of the five major state pension plans (KERS, Teachers, State Police, County Employees, and Judicial). For the year ended June 30, 1996, audit reports for those components showed annual contributions in excess of \$51 million.

FAC's failure to establish effective controls could cause certain entities' transactions to not be properly recorded; thus, misstating the CAFR.

FINDING 97-FAC-2: Finance And Administration Cabinet Should Adequately Document And Improve Procedures For Preparing The CAFR (Continued)

Recommendation

1. We recommend FAC develop procedures relating to removals which document:
 - All removal entities,
 - The reconciliation of the spreadsheet to FAC printouts, and
 - The reasons for all occurrences that do not follow the normal removal process.
2. Pension information should be requested from component units not participating in one of the five state-sponsored pension plans, and disclosure of that information should be included in the Commonwealth's notes to the financial statements.

Management's Response and Corrective Action Plan

The removal process is not a static procedure and the accounts to be removed are subject to change from year to year. Efforts have been made to assure that new account numbers are identified. A listing of account numbers that have been added during the year is reviewed. However, the process may miss some because the title of the new account may not be specific enough.

The beginning balances from the spreadsheet were the amount from the previous year's removals and should be correct. If there is a difference, this would constitute a restatement and those should be identified as such.

Additional documentation will be written for the removal process for Funds 01 and 02 and included in the reporting manual.

FINDING 97-FAC-3: The Finance And Administration Cabinet Should Use The Automatic Log-Off Feature For Customer Information Control System Applications

State Agency: Finance and Administration Cabinet

FAC's on-line applications through the Customer Information Control System (CICS) were not set up to time out. The application will remain available on the screen until a user logs off or until the system is brought down for nightly processing. This allows for unauthorized access to applications if the screen is left unattended.

A strong internal control structure requires system applications which include critical or confidential data to automatically disconnect a session if no activity has occurred for a specified period of time. This would safeguard misuse of an active session. Without this control, the risk of unauthorized access to FAC applications is increased.

Recommendation

We recommend FAC request DIS to implement the log-off feature for critical and confidential CICS applications.

Management's Response and Corrective Action Plan

If an automatic log-out feature is implemented, most employees will be constantly logging back into CICS. Employee duties require the use of CICS, as well as certain other PC applications. The amount of time on various applications depends on the duty being performed. An employee could be utilizing a PC program that will require access to CICS data. Employees currently have the ability to toggle back and forth between the PC application and CICS to perform this duty. An automatic log-out feature will slow down this process if the employee does not access CICS within the specified time frame. A large enough time frame for the log-out feature will decrease the security of the log-out feature. Our recommendation is to implement a required screen saver with password. A minimum time frame of five minutes will be instituted on the screen saver function. Employees will be required to activate the screen saver if leaving their desk. In addition, PCs will be installed for the keypunch employees thereby giving them access to the screen saver functions.

FINDING 97-FAC-4: The Finance And Administration Cabinet’s Division Of Accounts Should Consistently Follow Procedures To Ensure Accurate Program Modifications

State Agency: Finance and Administration Cabinet

FAC’s Division of Accounts (DOA), Data Coordination Branch, did not consistently follow procedures to ensure the accuracy of modifications to STARS program. Specifically, DOA did not always match “Requests for Professional Services” forms to cutover forms prepared when modified programs were placed into production.

The DOA Data Coordination Branch sent requests to the Department of Information Systems (DIS) to modify and test STARS programs. When DIS completed the modification and testing, they placed these programs in a staging production object library. DIS notified DOA the modified programs were ready to be transferred into production by computer cutover screens. DOA prepared a cutover form from the screen when they placed the programs into production. The cutover screen did not provide a cross-reference number; therefore, the modified programs placed into production could not be easily matched to the requests submitted by DOA. Also, DIS sent DOA an e-mail message with cross-reference numbers when a modified program was placed in the staging library so the modification could be easily matched to a DOA request form. However, DIS did not always submit the e-mail messages.

Failure to match cutover forms to a DOA request form increased the possibility that program changes could be made by DIS programmers without DOA approval. This procedure was especially critical since DIS programmers were allowed access to production data.

The DOA had ultimate responsibility for all program modifications. Changes should not be made without DOA knowledge and approval.

Recommendation

We recommend the FAC’s DOA implement the following:

- Request DIS either provide an e-mail message to accompany every modified program placed in the staging library or include a DOA cross-reference number in the detailed description on the computer cutover screens.
- Match all cutover forms to the proper DOA request form to ensure DOA requested the modifications.
- Require a supervisor review the process of matching program modifications to request forms. Initial/signature and date should document this review process. All documentation should be retained for a minimum of three years.

FINDING 97-FAC-4: The Finance And Administration Cabinet's Division Of Accounts Should Consistently Follow Procedures To Ensure Accurate Program Modifications (Continued)

Management's Response and Corrective Action Plan

DOA agrees with this weakness and has taken steps to insure that all modifications will follow the recommendations of audit staff.

FINDING 97-FAC-5: The Office Of The Controller Should Update Insurance Coverage For Computer Hardware

State Agency: Finance and Administration Cabinet

The Office of the Controller did not maintain a current inventory of their computer equipment with State Risk and Insurance Services (State Risk). Insurance coverage only extended to specific items appearing on an equipment list supporting insurance coverage requested through State Risk.

We compared the equipment on the listing provided to State Risk dated March 1995, with a June 30, 1996, Annual Fixed Assets Status Report (Fixed Assets Report) used for financial information in the Commonwealth's CAFR. Our review revealed the following discrepancies:

- \$260,416 of insured equipment did not appear on the Fixed Assets Report.
- \$26,967 of insured equipment appearing on the Fixed Assets Report had a zero balance as of June 30, 1996.
- \$146,826 of equipment appearing on the Fixed Assets Report was not included on the listing sent to State Risk for insurance coverage.

Our comparison, therefore, revealed \$287,383 of insured equipment that has a zero balance, or is no longer in the possession of the Controller's Office, and \$146,826 of uninsured computer equipment on hand as of June 30, 1996.

Agencies are required to submit a renewal of insurance coverage on a state fiscal year basis. The coverage is based on the inventory present at the beginning of the state fiscal year. Updates can be made during the fiscal year as necessary. In the event of a disaster, the agency will be unable to recover the replacement value for equipment not appearing on the insured inventory listing of file with State Risk. Also, FAC's insuring equipment with no value or no longer in their possession unnecessarily increases premium costs.

Good management practices dictate computer equipment be insured to facilitate continued operations in the case of loss.

Recommendation

The Office of the Controller should update its computer equipment listing on file with State Risk. This listing should be updated to ensure sufficient insurance coverage is obtained for replacement in the event of a disaster or other loss of equipment. In addition, the Office of the Controller should maintain the inventory on a perpetual basis and update the listing periodically with State Risk.

FINDING 97-FAC-5: The Office Of The Controller Should Update Insurance Coverage For Computer Hardware (Continued)

Management's Response and Corrective Action Plan

The recommendation to update the computer equipment listing on file with State Risk is currently being implemented. With the constant upgrades to equipment and new equipment purchases this was overlooked. Any new equipment purchases or upgrades will be checked against the State Risk listing for updates.

FINDING 97-FAC-6: The Finance And Administration Cabinet Should Provide Adequate Access Security For The Statewide Accounting And Reporting System

State Agency: Finance and Administration Cabinet

FAC did not provide adequate access security for the Statewide Accounting and Reporting System (STARS). FAC security did not ensure proper segregation of duties, nor did they consistently require documentation for system access requests. As a result, we noted the following exceptions:

- A Department of Information Systems (DIS) programmer was granted update access to production data.
- Division of Accounts (DOA) employees were not required to submit properly approved access request forms.

Failure to maintain proper segregation of duties for programmers increases the likelihood of unauthorized changes to data. Also, the propriety of user access cannot be ensured without an approved documented access request for all users.

System security should be administered in such a way as to ensure proper segregation of duties. Employees should be granted the minimum access necessary for the completion of their job duties. A strong security environment does not allow programmers access to data without authorization and oversight. Further, documentation should be available to verify proper authorization of system access granted for all employees.

Recommendation

We recommend the FAC's DOA implement the following:

- Remove access to data for DIS programmers. If they are granted this access, it should only be in an emergency situation, in which case the programmer's activity should be closely monitored. The FAC security coordinator should promptly revoke the access granted once the emergency situation is resolved.
- Consistently apply access control procedures by requiring documented access authorization for all system users.

Management's Response and Corrective Action Plan

- *Update access to production by a Department of Information Systems programmer has been revoked.*
- *STARS access request forms are now required for all users, including FAC Division of Accounts employees.*

FINDING 97-KHPA-7: The Kentucky Health Purchasing Alliance Should Establish Monitoring Procedures For The Third Party Administrator

State Agency: Kentucky Health Purchasing Alliance

The Kentucky Health Purchasing Alliance (Alliance) was given the responsibility of administering the health insurance program for the Commonwealth. To assist in this endeavor, the Alliance hired a third party administrator (TPA) to collect premiums and distribute funds collected to health insurance providers. Our review, as part of our agreed-upon procedures work, of the TPA and the Alliance indicated the following internal control weaknesses:

- The TPA failed to establish an accounting system which identified and tracked the amount of premiums due to health insurance providers. According to the Alliance, the TPA made payments to carriers based on their estimated percentage share of the total pool. Thereafter, payments were made to providers only for those employees whose information from the provider agreed to the TPA records. The TPA did not develop an accounting system or reconciliation procedures, which would have identified the proper payment amount to be paid to health insurance providers.
- The Alliance did not establish monitoring procedures to ensure that the TPA retained all supporting documentation. We noted several instances where the TPA could not produce deposit records and participant applications to support accounting transactions. Without these records, the Alliance could not be sure the amounts collected were proper and the coverages requested by applicants were correct or legitimate.
- The Alliance did not establish monitoring procedures which would have ensured the applications submitted by participants agreed to the information recorded in the system. Of the 30 applications tested, we noted one instance where the information recorded on the application did not agree to information within the system.
- The Alliance did not establish monitoring procedures which would have ensured that the rates charged to an employee agreed to the pre-established rates. In our test of 30 applications, we noted one instance where the rate charged for a rider did not agree to the rate tables. If payments do not agree to the rates, employees may be charged incorrect amounts or providers may not receive the correct amount due.

FINDING 97-KHPA-7: The Kentucky Health Purchasing Alliance Should Establish Monitoring Procedures For The Third Party Administrator (Continued)

- The Alliance did not establish monitoring procedures which would have required the TPA to maintain individual payment records for employees of cities and health departments. Without detailed information, neither the TPA, nor the Alliance could demonstrate those entities had submitted the proper premiums. The failure to maintain accurate detailed records precluded the verification that individual employees paid the correct rate for their coverage.
- The Alliance did not establish monitoring procedures which would have monitored the timeliness of payments from public groups. We noted one instance where a school had not paid their premiums for over eight months. Additionally, we noted eighteen instances where public entities were late with their monthly payments. Allowing entities to continuously submit late payments interrupts payment cycles and could create cash flow problems.
- The Alliance did not establish monitoring procedures which would have verified, on a test basis, the TPA's reconciliation of discrepancies. A discrepancy is defined as the difference between the amount paid and the amount billed. Our testing indicated the following:
 - The TPA did not document reconciliations performed for fiscal court or health departments.
 - The TPA's reconciliation for school districts did not agree to the billing records sent.
 - The amount billed per the system did not agree to the billing statement or the billing disk.
 - We noted one instance in which a deceased employee appeared on the bill several months after death and an instance where the bill listed an employee who had never worked for the school system.
 - We noted several instances where employees had no change in status or coverage, yet the amount billed changed.
 - We noted several instances where an employee changed their status, but we could not verify the subsequent change in rates.
 - We noted several instances where employees had resigned, but had not been removed from subsequent bills.
- The Alliance did not establish monitoring procedures to review payments made by the TPA. We noted one instance where a check amount did not agree to the check register or the supporting documentation; instances where payments were made on a manual basis, but were not entered into the computer system; and instances where expenditures did not agree to or have proper supporting documentation. Also, there was no documentation verifying that payments had been properly reviewed or approved by TPA management.

FINDING 97-KHPA-7: The Kentucky Health Purchasing Alliance Should Establish Monitoring Procedures For The Third Party Administrator (Continued)

- The Alliance did not establish monitoring procedures which would review the transfer of moneys between bank accounts and review the charges posting to these accounts. We noted several transfers between accounts but could not determine the necessity of these transfers. We found no evidence that the Alliance was monitoring the movement of these funds. We noted a \$101 debit memo recorded on the bank statement, which the TPA could not explain. Also, the Alliance had not required the TPA to establish a check write-off policy.
- The Alliance did not establish monitoring procedures which would review activity in the Shortfall Bank Account. This account was established to account for the \$2.50 monthly surcharge levied against all employees working for the Commonwealth, school boards, and retirement systems. However, we noted this account was not restricted to the deposit of this surcharge. Premium deposits, transfers to investment account, credit memos, error corrections, transfers to other accounts, bank charges, withdrawals, returned deposit items, and the TPA fee all impacted this account. Failure to properly monitor bank accounts could lead to unauthorized withdrawals.

The contract between the Alliance and the TPA required that health insurance providers be paid monthly following the month of coverage. The contract also required the TPA develop and maintain accounting records.

Sound accounting practice is based on the basic premise that public officials and others entrusted with public resources are responsible for establishing and maintaining controls to ensure that resources are safeguarded and reliable data are obtained, maintained, and fairly disclosed.

Recommendation

We recommend the Alliance require the TPA to establish an accounting and reconciliation system that, at a minimum:

- Allows for the timely determination and payment of amounts due to providers.
- Maintains detailed record by participant.
- Ensures participant information is recorded properly and in a timely manner.
- Ensures proper premiums are received from participating entities in a timely manner.
- Provides information to the Alliance on a periodic basis. The Alliance should stipulate the timing and content of that information.
- Establish penalties for entities which fail to submit premiums on a timely basis.

FINDING 97-KHPA-7: The Kentucky Health Purchasing Alliance Should Establish Monitoring Procedures For The Third Party Administrator (Continued)

Recommendation (Continued)

We further recommend that the Alliance establish monitoring procedures that ensure:

- Proper retention of accounting records, including deposit information and applications.
- Rates charged to participants agree to pre-established rates.
- The maintenance of accounting records on an individual level for health departments and cities.
- Timely payment of premiums by all entities.
- Discrepancy reconciliations are monitored for accuracy, supported by documentation, timely and consistent.
- Payments by the TPA are supported, reviewed, and proper.
- Movement of funds by the TPA are reviewed and approved.
- Bank accounts are reviewed and controlled.

Management's Response and Corrective Action Plan

The Commonwealth of Kentucky has commenced litigation against both United Chambers and Plan Source alleging, inter alia, breach of contract and negligence. The litigation is currently pending in Franklin Circuit Court.

FINDING 97-Personnel-8: Logical Access Control Over The Unified Personnel And Payroll System Should Be Strengthened

State Agency: Personnel Cabinet

As noted in the prior audit, the Personnel Cabinet (Personnel) did not provide adequate security for the Unified Personnel and Payroll System (UPPS). Personnel security did not ensure proper segregation of duties and system access request forms were not consistently required. We noted the following exceptions:

- Two cases in which DIS system librarians were granted update access through the Commonwealth's Time Sharing Option (TSO) to production load libraries.
- Three cases in which DIS programmers were granted update and/or control access through TSO to Job Control Language (JCL) libraries.
- Two cases in which DIS programmers were provided CICS security update access to various data files. This access gave the programmers the ability to enter new employees, change deductions, key payroll transactions, and set up or alter user access to the system. Both of these programmers were included in the three cases noted above.

Logical system access controls that were established were not consistently applied. Furthermore, properly approved access request forms were not always received before granting access to new users and/or granting additional access to existing users.

Failure to maintain proper segregation of duties for programmers and librarians increased the likelihood that unauthorized changes to programs could be made, loaded into production, and executed to update production data. Further, allowing programmers direct access to data increased the possibility of unauthorized access and alteration of Personnel data sets. Finally, the propriety of access levels cannot be ensured without documented access request approvals for all users.

A strong security environment does not allow programmers or librarians to production load libraries, JCL libraries or agency data sets without proper authorization and oversight. Employees should be granted access to programs and data files at the minimum level necessary for the completion of their job duties. System security should be administered in such a way as to ensure proper segregation of duties. Further, documentation should be available to verify proper authorization of system access for all employees.

FINDING 97-Personnel-8: Logical Access Control Over The Unified Personnel And Payroll System Should Be Strengthened (Continued)

Recommendation

DIS programmers and librarians should not be given access to program load libraries, production data files, or JCL libraries. If they are granted this access, it should only be in an emergency situation, and then work performed should be closely monitored. The Personnel security administrator should promptly revoke emergency access once the emergency situation is resolved.

Management's Response and Corrective Action Plan

We respect the recommendation; however, we cannot assure compliance. We have allowed our production programmers update access to our files for the last 15 years without incident. This access allows our programmers to resolve problems without additional intervention from the personnel staff. We will monitor the use of this access, and if deemed appropriate, will reduce or eliminate it if problems arise. We will remove the update access currently allowed for the DIS librarians.

Auditor's Response

The fact that no problems have arisen over the years that this type access has been granted does not resolve the fact that the logical access granted the DIS programmers constitutes a major security control weakness. We re-emphasize that this access should only be provided in an emergency situation and that work performed by the programmers should be closely monitored.

FINDING 97-Personnel-9: The Personnel Cabinet Should Maintain A Current Inventory Of Computer Equipment

State Agency: Personnel Cabinet

As noted in the prior audit, Personnel's computer hardware insurance coverage was insufficient. Insurance coverage extends only to those items appearing on the equipment listing provided to State Risk and Insurance. The listing for Personnel included \$460,248 in computer hardware. However, it was dated April 1992, and only \$353,551 of this equipment was still in service. Personnel did not have a current hardware inventory listing at the beginning of SFY 1997; according to the fixed assets listing, there was inclusive of \$830,848 in computer equipment at the beginning of SFY 1997. This discrepancy left \$477,297 of equipment uninsured. There were no changes made to the insurance coverage during the fiscal year.

The lack of a current computer inventory listing on file with State Risk and Insurance could result in paying insurance premiums for items no longer in service or in carrying insufficient coverage for new equipment.

Good management practices require adequate protection of assets. Management must also be able to identify outdated equipment and plan for the purchase of new resources. Adequate disaster recovery planning requires equipment have sufficient insurance coverage and be inventoried by location. Should equipment need to be replaced, these preventive measures allow for work activity to resume as soon as possible.

Recommendation

We recommend Personnel complete a current computer equipment inventory. The inventory listing should, for each item, include a unique identification number, a description of the equipment, the serial number, the estimated replacement cost, and the location of the equipment. This listing should be used to ensure sufficient insurance coverage is obtained in the event of a disaster or other loss of equipment. In addition, inventory should be maintained on a perpetual basis and updates to insurance coverage made periodically.

Management's Response and Corrective Action Plan

We concur with the recommendation of the State Auditor and have taken steps to purchase insurance coverage for our computer inventory as of July 1, 1997 . We further have advised staff to try to update our insurance coverage on a quarterly basis.

FINDING 97-Personnel-10: The Personnel Cabinet Should Prepare A Disaster Contingency Plan

State Agency: Personnel Cabinet

As reported in the prior audit, while the critical systems on the mainframe had been identified and prioritized, Personnel had not prepared for the contingency of its facilities being involved in a disaster. There was no written documentation analyzing the Personnel's risks; identifying alternative systems and processing centers; and identifying resources not on the mainframe but still necessary to the orderly and timely recovery of operations. Personnel did participate in the DIS's disaster recovery plan and related critical system recovery testing. However, the DIS plan only covers mainframe systems that were determined to be critical. Any agency stand alone applications and related data are not covered.

Not having a complete disaster recovery/contingency plan increased the possibility of loss due to excessive recovery time and costs, and could unnecessarily expose the Cabinet to public scrutiny.

Written policies and procedures for contingency planning ensure a minimum disruption of services and document the level of importance of disaster recovery. The goal of a disaster recovery/contingency plan is to develop preparedness at minimal cost using available resources. While being prepared at the state level is vital, the availability of alternate agency processing, procedures, and facilities need to be considered to ensure continued operations in the event of a disaster.

Recommendation

While we recognize management personnel within the Personnel Cabinet are aware of the importance of disaster recovery/contingency planning and are in the process of developing a more complete written plan, we recommend the following be considered for plan revisions:

- Definition of a disaster,
- Identification of potential disaster scenarios,
- Identification of the types of risks and their potential impact on Personnel,
- Identification of any critical Personnel applications, programs, etc. (e.g. LAN or AS400 based programs or files),
- Development of a contact list of key personnel and their job duties in the event of a disaster,

FINDING 97-Personnel-10: The Personnel Cabinet Should Prepare A Disaster Contingency Plan

Recommendation (Continued)

- Designation of a contact person within Personnel to advise and review departmental plans,
- Involvement and responsibilities of management and users within departments to develop their own departmental plans, and
- Identification of alternate agency processing site.

Management's Response and Corrective Action Plan

The absence of a full-time information management staff impaired our ability to devote the necessary time and resources to the full development of a disaster recovery plan. Now that this staff is in place, the planning will be completed as recommended.

Material Weaknesses Relating to Internal Controls and/or Compliance:

FINDING 97-C&I-11: The Office Of The Kentucky State Treasurer Should Strengthen Controls Over Monthly Bank Reconciliations

State Agency: Office Of The Kentucky State Treasurer

During our review of the monthly bank reconciliations for the Office of the Kentucky State Treasurer (Treasury) for SFY 97, we determined that Treasury did not maintain adequate supporting documentation for the amounts recorded in the clearing accounts. The clearing accounts represent deposits in the bank for which Treasury has not yet received a pay-in voucher. Therefore, the deposits have not been recorded in the STARS.

Treasury, as part of the monthly reconciliation process, did not compile a detailed listing of the deposits comprising the clearing accounts. This process becomes even more critical at the state's fiscal year end on June 30. Accurate information is needed to determine that cash on hand is fairly stated in the general-purpose financial statements. The amount of the "Commonwealth Concentration" clearing account at June 30, 1997 was \$17,592,339. Upon the auditor's request and with considerable effort, Treasury was able to identify the majority of the deposits that made up the "Commonwealth Concentration" clearing account at June 30, 1997.

Without supporting documentation for the monthly bank reconciliation of the clearing accounts, we could not determine an adequate bank reconciliation was performed. Furthermore, sufficient supporting documentation could identify time delays between receipt of the deposit and receipt of the pay-in-voucher. With this information, Treasury could determine if any agencies were not processing their pay-in vouchers promptly.

Recommendation

We recommend Treasury document a detailed listing of each amount comprising each clearing account as part of their monthly reconciliation process. We further recommend Treasury submit this listing as part of their monthly reconciliation package to the APA. Treasury should also contact appropriate agency officials for any agency not processing pay-in vouchers promptly.

FINDING 97-C&I-11: The Office Of The Kentucky State Treasurer Should Strengthen Controls Over Monthly Bank Reconciliations (Continued)

Management's Response and Corrective Action Plan

The State Treasurer's Office agrees that this process would be desirable. However, we are not at all certain that, with current staffing levels and workloads, it is at all feasible to do this within the time available to conduct the monthly reconciliation.

The matching of electronic deposits with Pay-In-Voucher documents is still a totally manual process. Identifying outstanding electronic deposits that have not been posted is a very time consuming and labor intensive procedure. We have made some progress in adapting limited electronic applications to aid this matching process, but there is currently no electronic interface of these records available. Identifying the outstanding items each month will add several days to the reconciliation process, and would not seem to be a workable option at this point.

In the new MARS system, there are specific tables envisioned which may aid in the identification of unmatched electronic deposits, and would facilitate the identification of the items in the clearing account which have not been posted. In addition, the new MARS system will use electronic pay-in documents rather than the current paper Pay-In-Vouchers. If the new system works as has been envisioned, there should be minimal delays in the receipt of deposit information that is needed to post bank deposits. It is hoped that most of this problem with items in the clearing accounts will disappear.

With the impending changes in the entire way in which the state, and the State Treasurer's Office, does business, we think it best to wait for the new processes due to be in place by July 1, 1999, rather than to embark on extensive re-programming and re-engineering of the current procedures, which are to be replaced.

We will continue to pursue new methods to handle this data which do not involve major system changes that will be obsolete in a few months, and we would welcome any suggestions that the Auditor might have to make these matches more effectively.

FINDING 97-KHPA-12: The Kentucky Health Purchasing Alliance Should Prepare Financial Statements

State Agency: Kentucky Health Purchasing Alliance

The Alliance did not prepare financial statements. Kentucky Revised Statute (KRS) 304.17A-030 (3) requires the Alliance to prepare financial statements. The Alliance did not comply with the reporting requirement of KRS 304.17A-030 (3).

Complete financial statements on the Alliance require information from TPA regarding the billing, collection, and payment of premiums to be combined with accounting information from STARS regarding general and administrative expenses. Procedures were not established between the Alliance and the TPA to combine this information and compile the appropriate financial statements.

Recommendation

Arrangements should be made for the preparation of the required financial statements.

Management's Response and Corrective Action Plan

The Alliance agrees with the recommendation. Since Plan Source did not prepare the financial statements, the Alliance retained, through the state auditor's office, Potter & Company, LLP to prepare the required financial statements.*

*The Auditor of Public Accounts Office contracted with Potter & Company, LLP, a certified public accounting firm, to conduct an audit of the Kentucky Health Purchasing Alliance. All management responses (in findings 97-KHPA-12 through 97-KHPA-20) directed to Potter & Company should be interpreted as directed to the Auditor of Public Accounts Office.

FINDING 97-KHPA-13: The Kentucky Health Purchasing Alliance Should Adequately Document New Member Enrollment And Coverage Changes

State Agency: Kentucky Health Purchasing Alliance

New member enrollments and changes in coverage recorded in the Alliance's electronic enrollment and billing files were not supported by proper documentation. The Program Rules issued pursuant to KRS 304.17A-030 require the Alliance to obtain an application for the enrollment of each new member and an Employee Change/Update Form for any subsequent changes in coverage requested by the enrollee.

	<u>Number of Units</u>
Total enrollees	210,000 (approximate)
Sample	200
Not in compliance	39

New member enrollments and changes in coverage not supported by adequate documentation could lead to errors in enrollee coverage, billings to covered groups, payments to Accountable Health Plans (AHPs), payments to agents, and the calculation of the monthly contractual fee to the TPA.

Supporting documentation could not be located. Factors that may have contributed to the difficulties in retrieving the requested documentation include the size of the initial open enrollment (approximately 160,000 enrollees), and two subsequent moves of enrollment applications and coverage change documentation from the predecessor TPA to the successor TPA and then from the successor TPA to the Alliance.

Recommendation

Procedures should be developed and implemented to ensure that applications are securely filed and retrievable. Consideration should also be given to a staggered enrollment for mandatory members in recognition of TPA service capabilities and workload limitations. For example, open enrollment could be conducted on an alphabetical basis, a geographic basis, or by member categories, such as state agencies, local school districts, health departments, etc.

Management's Response and Corrective Action Plan

The Alliance agrees that all necessary documents supporting enrollment should be obtained. The Alliance does not have enough information as to whether Potter & Company's sampling is sufficient to determine the scope of the problem. While the Alliance supports Potter & Company's recommendation for staggered enrollment, customers have and would object to Potter & Company's recommendation. State law requires the state employees to enroll on January 1.

FINDING 97-KHPA-13: The Kentucky Health Purchasing Alliance Should Adequately Document New Member Enrollment and Coverage Changes (Continued)

Management's Response and Corrective Action Plan (Continued)

Provider directories change, requiring the open enrollment period to be within a short period of time before the effective enrollment date.

Auditor's Response:

The sample was not planned to determine the scope of the problem. The sample was planned as a representative test of the rate of deviation from a prescribed internal accounting control procedure.

FINDING 97-KHPA-14: The Kentucky Health Purchasing Alliance Should Adequately Document Notifications Of Terminations In Coverage

State Agency: Kentucky Health Purchasing Alliance

Terminations of coverage recorded in the Alliance's electronic enrollment and billing files were not supported by documentation of notifications from participating employers or documentation of written verifications. The Program Rules issued pursuant to KRS 304.17A-030 require the participating employer to notify the Alliance of the enrollees to be disenrolled. The Alliance is required to provide verification of the disenrollment in writing to the employer.

	<u>Number of Units</u>
Total enrollees	210,000 (approximate)
Sample	200
Terminations included in sample	42
Not in compliance	32

Errors in terminations of coverage could result in errors regarding enrollee coverage, billings to covered groups, payments to AHPs, payments to agents, and the calculation of the monthly contractual fee to the TPA. This condition arose because supporting documentation could not be located.

Recommendation

Procedures should be developed to ensure documentation for terminations are securely filed and retrievable.

Management's Response and Corrective Action Plan

The Alliance agrees that terminations should be effectively recorded and communicated to members. The Alliance has reason to believe that certain terminations were communicated to the health plans, but has not received such proof from Plan Source at this time. The Alliance does not have enough information as to whether Potter & Company's sampling is sufficient to determine the scope of the problem.

Auditor's Response

The sample was not planned to determine the scope of the problem. The sample was planned as a representative test of the rate of deviation from a prescribed internal accounting control procedure.

FINDING 97-KHPA-15: The Kentucky Health Purchasing Alliance Should Ensure Correct Billing Of Enrollees And Employers

State Agency: Kentucky Health Purchasing Alliance

Participating employers and individual enrollees were billed incorrect premiums and/or for incorrect coverage periods. The Program Rules issued pursuant to KRS 304.17A-030 require the Alliance to bill premiums at the AHP rates approved by the Commissioner of Insurance for the periods each enrollee is eligible for coverage.

	<u>Number of Units</u>	<u>Dollars</u>
Total premium billed	2,850,000 (A)	\$ 695,361,835
Total calculations sampled (B)	2,454	\$ 558,271
Over-billing errors	7	\$ 571
Under-billing errors	17	\$ (2,699)

(A) Approximate total billing calculations.

(B) Calculations were tested for the enrollees selected at finding 97-KHPA-13. As indicated at findings 97-KHPA-13 and 97-KHPA-14, supporting documentation could not be located for certain new member enrollments, changes in coverage, and terminations of coverage. We were unable to test those calculations not supported by proper documentation and, accordingly, they were excluded from the above sample.

Incorrect premiums billed to covered groups and individual enrollees will result in errors in premiums collected, errors in the calculation and collection of the monthly fee for the Alliance under KRS 304.17A-030, and errors in payments to agents.

Data recorded in enrollee demographic files did not agree to supporting applications or change in coverage documentation. Errors in demographic data will cause errors in premium calculations dependent upon demographic characteristics. Premium calculations were also omitted for periods in which enrollees were enrolled for coverage.

Recommendation

Procedures should be developed to ensure that proper amounts are billed to participating employers and individual enrollees. These procedures should include procedures to verify and insure the accuracy of recorded demographic data. The procedures should also insure that premiums are calculated for all periods in which enrollees are enrolled for coverage.

Management's Response and Corrective Action Plan

The Alliance agrees that accurate billings should be forwarded to members. The Alliance does not have enough information as to whether Potter & Company's sampling is sufficient to determine the scope of the problem.

FINDING 97-KHPA-15: The Kentucky Health Purchasing Alliance Should Ensure Correct Billing Of Enrollees And Employers (Continued)

Auditor's Response

The sample was not planned to determine the scope of the problem. The sample was planned as a representative test of the rate of deviation from a prescribed internal accounting control procedure.

FINDING 97-KHPA-16: The Kentucky Health Purchasing Alliance Should Ensure Correct Calculation Of Premiums Due To Accountable Health Plans

State Agency: Kentucky Health Purchasing Alliance

Errors occurred in the calculation of premiums due to AHPs. KRS 304.17A-030 requires the Alliance to bill, collect, and remit premiums to the AHP at the negotiated rates specified in the contract between the Alliance and the AHP and approved by the Commissioner of Insurance for the periods each enrollee is eligible for coverage.

	<u>Number of Units</u>	<u>Dollars</u>
Total premium billed	2,850,000 (A)	\$ 689,941,794
Total calculations sampled (B)	2,454	\$ 545,148
Over-payment errors	240	\$ 7,546
Under-payment errors	260	\$ (8,693)

(A) Approximate total payment calculations.

(B) Calculations were tested for the enrollees selected at finding 97-KHPA-13. As indicated at findings 97-KHPA-13 and 97-KHPA-14, supporting documentation could not be located for certain new member enrollments, changes in coverage, and terminations of coverage. We were unable to test those calculations not supported by proper documentation and, accordingly, they were excluded from the above sample.

Incorrect amounts were calculated for premiums due to AHPs resulting in errors in amounts paid. The premium rates used in the premium calculations did not agree to the negotiated rates specified in the contract between the Alliance and the AHP and approved by the Commissioner of Insurance. Premium calculations were also omitted for periods in which enrollees were enrolled for coverage. In other instances, the data recorded in enrollee demographic files did not agree to supporting applications or change in coverage documentation. Errors in demographic data will cause errors in premium calculations dependent upon demographic characteristics.

Recommendation

Procedures should be developed for the accurate determination of premiums due to AHPs. These procedures should include steps to timely update, verify, and insure the accuracy of premium rate tables and recorded demographic data.

Management's Response and Corrective Action Plan

The Alliance agrees that accurate premium payments should be forwarded to the health plans. The Alliance does not have enough information as to whether Potter & Company's sampling is sufficient to determine the scope of the problem.

FINDING 97-KHPA-16: The Kentucky Health Purchasing Alliance Should Ensure Correct Calculation Of Premiums Due To Accountable Health Plans

Auditor's Response

The sample was not planned to determine the scope of the problem. The sample was planned as a representative test of the rate of deviation from a prescribed internal accounting control procedure.

FINDING 97-KHPA-17: The Kentucky Health Purchasing Alliance Should Complete Covered Group Reconciliations Timely

State Agency: Kentucky Health Purchasing Alliance

Reconciliations of enrollment, monthly billings, and month-end balances between the Alliance and the covered groups were not always properly completed in a timely manner. Internal controls should be in place to reconcile enrollment, monthly billings, and month-end balances between the Alliance and the covered groups. Errors in billings to the covered groups may go undetected, leading to errors in premiums due and paid to AHPs.

The TPA had procedures in place to reconcile payments received to premiums billed. The procedures required payments received to be applied before payments were made to AHPs. However, the reconciliation procedures established by the TPA do not appear to have been applied effectively or in a timely manner.

Recommendation

The reconciliation procedures in place should be reviewed to improve their effectiveness and timeliness.

Management's Response and Corrective Action Plan

The Alliance agrees that reconciliations should be accurate and timely forwarded to the health plans. The Alliance does not have information as to whether Potter & Company's sampling is sufficient to determine the scope of the problem.

Auditor's Response

The sample was not planned to determine the scope of the problem. The sample was planned as a representative test of the rate of deviation from a prescribed internal accounting control procedure.

FINDING 97-KHPA-18: The Kentucky Health Purchasing Alliance Should Complete Insurance Carrier Reconciliations Timely

State Agency: Kentucky Health Purchasing Alliance

Reconciliations of enrollment, monthly billings, and month-end balances between the Alliance and the AHPs were not properly completed. Internal controls should be in place to reconcile enrollment, monthly billings and month-end balances between the Alliance and the AHPs. As a result of this problem, errors in premiums due and paid to AHPs may go undetected. The TPA does not appear to have developed procedures or dedicated resources to perform these reconciliations.

Recommendation

The balance of premiums due to each AHP should be reconciled with information obtained from the AHP at the end of each month. Basic reconciliation procedures should require the insurance carrier to provide the TPA an updated enrollment and premium calculation each month after all changes have been processed. The TPA should reconcile this information with the Alliance's enrollment and billing files. Changes should be forwarded to the insurance carrier. The Alliance should also consider an internal auditor on the Alliance staff to conduct quarterly or semiannual reviews of the monthly reconciliations prepared by TPA.

Management's Response and Corrective Action Plan

The Alliance agrees that reconciliations should be accurate and timely forwarded to the health plans. The Alliance does not have information as to whether Potter & Company's sampling is sufficient to determine the scope of the problem.

Auditor's Response

The sample was not planned to determine the scope of the problem. The sample was planned as a representative test of the rate of deviation from a prescribed internal accounting control procedure.

FINDING 97-KHPA-19: The Kentucky Health Purchasing Alliance Should Develop Procedures To Accurately Reconcile Bank Accounts

State Agency: Kentucky Health Purchasing Alliance

Bank accounts maintained for the collection and remittance of premiums were not accurately reconciled. Internal controls should be in place to reconcile bank accounts in a timely manner.

Because of the failure to accurately reconcile bank accounts, errors can occur and not be detected in a timely manner. Identified errors that resulted in adjustments during the audit include the following:

- Duplicate entries of checks in cash disbursement records.
- Checks omitted from cash disbursement records.
- Old outstanding checks were not written off.
- Ending cash balances on monthly bank reconciliations were incorrect.

The TPA does not appear to have developed procedures for the accurate reconciliation of the bank accounts.

Recommendation

Procedures should be developed for the accurate reconciliation of Alliance bank accounts.

Management's Response and Corrective Action Plan

The Alliance agrees with the recommendation. The Alliance retained, through the state auditor, assistance from Potter & Company in performing the bank reconciliation.

FINDING 97-KHPA-20: The Kentucky Health Purchasing Alliance Should Maintain A General Ledger

State Agency: Kentucky Health Purchasing Alliance

No general ledger was maintained to accumulate and record the transactions of the Alliance. Internal control procedures should be in place to accumulate and record transactions in a general ledger in order to facilitate financial reporting and the safeguarding of assets.

As indicated in finding 97-KHPA-12, the Alliance did not comply with the reporting requirement of KRS 304.17A-030 (3) which requires the Alliance to prepare financial statements. Because of the failure to maintain a general ledger, the month-end balances for premiums receivable, premiums payable, and reconciled cash could not be properly reconciled to an appropriate general ledger control account.

A complete general ledger on the Alliance requires information from the TPA regarding the billing, collection, and payment of premiums to be combined with accounting information from STARS regarding general and administrative expenses. Procedures were not established between the Alliance and the TPA to combine this information and maintain a current general ledger.

Recommendation

Procedures should be implemented for the establishment and maintenance of a general ledger.

Management's Response and Corrective Action Plan

The Alliance agrees with the recommendation. The Alliance retained, through the state auditor, assistance from Potter & Company in summarizing and recording transactions.

FINDING 97-KY KARE-21: Controls Over Receipts Should Be Strengthened At Kentucky Kare

State Agency: Kentucky Kare Health Insurance Authority

The Kentucky Kare Health Insurance Authority (KY Kare) received premium collections from PlanSource, Inc.(PlanSource), the TPA for the Alliance, at least once a month. These deposits were by wire transfer directly into KY Kare's National City Bank account located in Frankfort, Kentucky. PlanSource would send KY Kare two remittance advices (one for state and local government and one for commercial individuals and small groups) weekly. KY Kare personnel reconciled the amounts on the remittance advices to the bank statements to ensure that the amounts reported were actually deposited into KY Kare's bank account.

During our review of the receipts function, we obtained and reviewed the remittance advices for premium deposits that were sent to KY Kare from PlanSource. The following exceptions were noted:

- No reconciliation was made by KY Kare personnel to ensure that the amounts reported and deposited by PlanSource were the actual amount of the premiums to be recorded.
- No evidence of written procedures has been developed for a premium reconciliation by KY Kare.

Thus, no reconciliation is made to ensure that the proper amount of premiums have been reported by PlanSource.

Recommendation

We recommend KY Kare personnel develop and implement written procedures to track or monitor the premiums to be collected by PlanSource (TPA for the Alliance). We further recommend that a reconciliation be performed on the premiums to be collected by the TPA (PlanSource SFY 97) with the actual deposits made by the TPA. This includes retaining the reconciliation and all supporting documentation by KY Kare personnel.

Management's Response and Corrective Action Plan

Kentucky Kare currently has no direct control over the collection of the appropriate data to accomplish this recommendation. All premium information is processed by the TPA for the Health Purchasing Alliance, and Kentucky Kare is informed that the contract with that TPA does not call for providing information billed or unearned premiums or a continuing reconciliation of premiums.

FINDING 97-KY KARE-21: Controls Over Receipts Should Be Strengthened At Kentucky Kare (Continued)

Management's Response and Corrective Action Plan (Continued)

Kentucky Kare will be able to use enrollment data provided by the KHPA TPA to approximate the amount of income that should be billed and/or collected. This amount will be used in monitoring the receipt of premium income for Kentucky Kare.

Kentucky Kare is pursuing possible alternatives to allow us to accomplish this recommendation.

FINDING 97-PST-22: The Office Of The Petroleum Storage Tank Environmental Assurance Fund Should Collect The Annual Fees And Penalties Required By Law To Be Levied

State Agency: Office Of The Petroleum Storage Tank Environmental Assurance Fund

The annual fees required to be levied by KRS 224.60-150 to fund the administration of the underground storage tank program are not presently being collected by the Office of the Petroleum Storage Tank Environmental Assurance Fund (The Fund). The penalty imposed by KRS 224.60-155 is also not being collected by the Fund. It is our understanding that these fees and penalties are currently being collected in the Natural Resources and Environmental Protection Cabinet.

Executive Orders dated April 18, 1996, and May 13, 1996, indicate the Fund is to perform all duties specified in KRS 224.60-100 through KRS 224.60-160. KRS 224.60-150 states that the Cabinet shall levy and collect annual fees from owners and operators of underground storage tanks for the purpose of funding the administration of the underground storage tank program. KRS 224.60-155 further states that owners and operators of underground storage tanks, who fail to comply with KRS 224.60-105, shall be subject to a civil penalty.

Revenues established under KRS 224.60-150 and KRS 224.60-155 are not being collected in the Fund as set forth by the Executive Orders.

On April 19, 1996, the Fund's Commission was abolished and the Fund was moved from the Natural Resources and Environmental Protection Cabinet to the Public Protection and Regulation Cabinet. The responsibility for the collection of these fees and penalties was retained in the Natural Resources and Environmental Protection Cabinet and was not transferred with the Fund.

Recommendation

The Office of the Petroleum Storage Tank Environmental Assurance Fund should investigate whether the responsibility to collect these fees and penalties should be transferred to the Fund to comply with KRS 224.60-150, KRS 224.60-155, and the Executive Orders dated April 18, 1996, and May 13, 1996. The Fund also should investigate what action may be taken to collect fees that may be owed to the Fund for the period beginning after April 19, 1996.

Management's Response and Corrective Action Plan

The Fund is in the process of investigating this matter and exploring ways in which it may collect these fees and penalties.

FINDING 97-REV-23: The Revenue Cabinet Should Improve Receipt Procedures (Date Stamp)

State Agency: Revenue Cabinet

The Revenue Cabinet did not have procedures to capture the date that returns and remittances were received. The Revenue Cabinet's receipt and tracking procedures included stamping returns and the accompanying remittances with corresponding, sequentially numbered validation numbers. Those validation numbers became the control factor by which the Revenue Cabinet tracked the returns and ensured that all receipts were ultimately deposited. However, there was not always a bridge between the validating number and the date the return was actually validated.

Without recording the date received on returns and remittances, the Revenue Cabinet could not always demonstrate that refund requests were received by the legally stipulated deadlines, or that proper penalties and interest were assessed for late payments. Our testing noted a withholding return that was filed late and had no penalty and interest assessed. In addition, the Revenue Cabinet could not demonstrate compliance with KRS 41.070, which requires that moneys received be deposited in the most prompt manner available

It should be noted that the Revenue Cabinet has made improvements in this area. Envelopes are attached to Miscellaneous taxes, Corporate taxes, and late returns. Also, pre-printed address labels for individual income tax returns that include a scan code enable the Revenue Cabinet to know the date these returns were received. We understand that is up to the individual taxpayers to attach their pre-printed, scan-code labels. However, we found that these improvements were not always adequate for the following type taxes: withholding, sales and use, and health care provider tax.

Recommendation

We recommend the Revenue Cabinet date stamp returns and remittances upon receipt or devise an alternative method of tracking receipt dates. The Revenue Cabinet should consider:

- Obtaining a stamp that includes a validating number and date.
- Maintaining a log to show date validating numbers were assigned to each return/remittance.
- Screening withholding returns more carefully for the due date to determine if late filing penalties and interest entered to the mainframe for more accurate assessment of penalties and interest.

FINDING 97-REV-23: The Revenue Cabinet Should Improve Receipt Procedures (Date Stamp) (Continued)

Management's Response and Corrective Action Plan

This has been a repeat comment since June 1995. The auditors' comment states that the KRC does not have sufficient mechanisms in place to ensure that all late filed returns are properly billed for penalty and interest. The recommendation to resolve this perceived weakness is to "date stamp" all documents and remittances received by the KRC. The following inefficiencies are noted if this recommendation is implemented.

This Division receives in excess of 4,000,000 tax documents and remittances annually. As stated in the comments under "Criteria," Revenue Operations is charged with the responsibility of processing these documents and depositing these remittances as efficiently and cost-effectively as possible. It is reasonable to assume that any additional handling of these documents (i.e., date stamping at the time of receipt) would significantly impair our ability to meet these responsibilities.

Date stamping, in and of itself, does not effectively address this perceived weakness. The KRC does have a written policy stating when returns are to be deemed late. This policy is based on postmark date and the assumption that mail is received no later than two days from that date. (Procedures are in place in all processing areas outlining these criteria and the actions that need to occur when a document is late.) This practice is consistent with the Internal Revenue Service (IRS) and other states. Date stamping of documents and remittances cannot occur until the document(s) are removed from the envelope and this date will very seldom reflect the actual postmark date of the envelope. Considering this scenario, it is reasonable to assume that using the received date as the date to determine if a return is not filed timely would create unwarranted billings of penalty and interest.

Business rules within the planned Integrated Tax System's Modernized Front End will require the capture of the postmark date from the envelopes in which documents are received. With this data on-line, this weakness will be virtually eliminated.

Auditor's Response

The tremendous volume of returns and corresponding responsibility for billions of dollars of tax receipts handled by the Revenue Cabinet reinforces the need for greater controls.

FINDING 97-REV-24: The Revenue Cabinet Should Utilize The Automatic Log-Off Feature For Information Management Systems And Customer Information Control System Applications

State Agency: Revenue Cabinet

Our discussions with personnel from the Revenue Cabinet DIS revealed that an automatic log-off feature was not used for Revenue terminals when using Information Management Systems (IMS) and CICS. Some Revenue employees use TSO, which had implemented a fifteen-minute automatic log-off feature. However, the majority of data entry operators entering tax data within Revenue use IMS and CICS on terminals. For security reasons, these terminals should utilize the auto log-off feature. The auditor observed that Revenue is transitioning from data entry on terminals to a personal computer (PC) data entry platform. These PCs have screen-savers which can be locked by password. However, it was noted that few employees with PC workstations at the Perimeter Park location were using password protection to lock their screen savers.

The failure to implement the IMS/CICS automatic log-off feature and password-protected PC screen savers provided an opportunity for unauthorized access to applications through active terminals left unattended by employees who had already logged on with their user identification and password. Such unauthorized access could lead to the loss of assets, interruption of services, or unauthorized data or program modifications.

The Revenue Cabinet's decision not to use the automatic log-off was apparently due to user complaints about having to log back onto a system when the automatic log-off feature within IMS/CICS had disconnected the session. Another factor might have been the cost of implementing this feature. Failure to use password protected PC screen savers was apparently resulted from the fact that standard policies were not issued concerning this control issue.

Recommendation

We recommend the Revenue Cabinet identify those users who are accessing critical applications or confidential data through IMS or CICS and work with the DIS to consider establishing the automatic log-off feature for those users. We further recommend the log-off time setting not to exceed 15 minutes. DIS has stated that they will likely charge agencies for the setup time involved in implementing this feature. However, the Revenue Cabinet must weigh the cost of strengthening this control against the potential loss which could result from not properly safeguarding state assets. At a minimum, we recommend the Revenue Cabinet issue standard policies requiring the use of password-protected screen savers on PC workstations. This control will be more critical as the Revenue Cabinet completes transition to a PC-based platform.

FINDING 97-REV-24: The Revenue Cabinet Should Utilize The Automatic Log-Off Feature For Information Management Systems And Customer Information Control System Applications (Continued)

Management's Response and Corrective Action Plan

*The use of the automatic logout feature available through IMS was investigated thoroughly by KRC staff with the assistance of DIS. The reason it was deemed unsatisfactory is the fact that the majority of KRC mainframe users are logged into two or three mainframe sessions simultaneously. There is no option available within the automatic logout feature that will not require the user to access **each** 3270 session during the time out period. This limitation would cause great frustration and loss of productivity since they would frequently return to an application in a background mainframe session and find that it had timed out.*

Since approximately 85% of KRC employees utilize PCs and more terminals are being replaced each quarter, it has been determined that KRC should adopt a screen saver utilization policy in order to prevent unauthorized access to taxpayer information. The screen saver must be installed with password protection and a maximum wait period of 15 minutes. Beginning with calendar year 1998, all new KRC PCs will be deployed with a standard KRC screen saver as described. A new KRC policy concerning the responsibility of KRC employees for safeguarding taxpayer data and the use of screen savers is being developed. This policy will advise KRC employees and their managers on why and how to use password protected screen savers. A "How To Use Screen Savers" document has been developed and will be distributed to all employees. They will be responsible for always utilizing the password protected screen saver function with a maximum 15 minute wait period.

FINDING 97-REV-25: The Revenue Cabinet Computer System Must Be Modified To Process Year 2000 Data

State Agency: Revenue Cabinet

Revenue Cabinet computer systems must be modified in order to process Year 2000 data fields. Most systems eliminate the '19' century from the date and use the last two digits of the year. This reduced storage space, keystrokes, and calculation time. However, systems with a two-digit year field will not accurately read, process, and calculate Year 2000 data. At the time of our audit, Revenue had not completed program modifications necessary to allow their systems to properly process Year 2000 data. Furthermore, at the time of our audit, Revenue had not completed an assessment of their non-mainframe systems to determine potential Year 2000 modification requirements.

DIS performed a review of the Revenue Cabinet's mainframe systems to estimate the resources and financial cost of modifying these systems to read and process Year 2000 data. The review identified seventeen systems requiring significant Year 2000 modifications. Six additional systems required testing and possibly minor modifications. This review did not include systems on other platforms, such as networks.

The Revenue Cabinet completed steps to initiate the Year 2000 modification process. A complete inventory of Revenue mainframe hardware and software was completed. DIS has completed the programming required to read and process Year 2000 data for five of Revenue's systems requiring significant modifications. Two more of these seventeen systems were within two months of completion. Modifications for two of the six systems tested for minor modifications have been completed. Revenue is funding the Year 2000 project from existing budget sources and has developed a specific plan and established goal dates for initiating and completing system modifications with the intention to be in complete Year 2000 compliant by December 1998.

Recommendation

We recommend the Revenue Cabinet ensure completion of the assessment for non-mainframe system Year 2000 modification requirements and continue to coordinate with DIS to complete modification and testing of their systems on all platforms to ensure these systems can properly process Year 2000 data.

FINDING 97-REV-25: The Revenue Cabinet Computer System Must Be Modified To Process Year 2000 Data (Continued)

Management's Response and Corrective Action Plan

The Kentucky Revenue Cabinet (KRC) recognizes the potential impact of hardware and software failure due to the Year 2000 (Y2K) problem. The KRC is actively pursuing many avenues to resolve Y2K issues. The following describes the two main areas of concern and our resolution efforts:

I. Hardware

An inventory of all KRC hardware was completed in June 1997. The KRC has received funding through EMPOWER Kentucky to replace all Cabinet hardware by December 31, 1999.

II. Software

A. Mainframe Systems

All mainframe systems were inventoried by the Department of Information Systems (DIS) during SFY 97. A Y2K conversion schedule was developed and is on target for the completion date of December 31, 1998. The KRC's Y2K coordinators are working with DIS and the KRC employees to test changes and schedule their promotion into production. After conversion changes are promoted for all affected systems, DIS and the KRC will start systems-wide testing for quality assurance.

B. PC Systems

The KRC is currently converting all PC systems for Y2K compliance as the systems go through regular maintenance cycles. We have converted over 60 applications since the beginning of May 1997. A Request for Proposal (RFP) is currently out for bid by the Finance and Administration Cabinet, Division of Purchases, to procure additional resources for Y2K assessment and conversion. This will complete the remaining 40 KRC applications that have not been assessed or converted. All conversions are targeted for completion on or before July 31, 1999. The warranty period for conversions provided by the Contractor extends until March 1, 2000.

The KRC has participated fully in the statewide Y2K inventory and assessment project sponsored by DIS, and provided information as requested by the Auditor of Public Accounts. The goal of the KRC's Y2K initiative is to recognize no impact from the date change on January 1, 2000.

FINDING 97-REV-26: The Revenue Cabinet Needs To Improve Tracking Procedures For Contingent Liabilities

State Agency: Revenue Cabinet

The Office of General Counsel, Division of Legal Services should improve tracking procedures for contingent liabilities. The Case Status Reports used to track cases did not contain complete information. We could not determine from the Case Status Reports whether the cases were “Assessment” cases or “Refund” cases in all instances. It should be noted that improvements were made to the report; however, not all cases were classified as “Assessment” or “Refund.” Also, we could not tell if the case was Probable, Possible, or Remote. Auditor traced Status of Pending Cases Report to Case Assignments Sheets and found six refund cases on the Status of Pending Cases Report that were not on Case Assignments Sheets. This does not include cases that were filed prior to October 15, 1993 (beginning date on Case Assignment Sheets). Also, one case was on the Status of Pending Cases Report and not on the Loss Contingency List that is used to prepare the AFR-70A for the closing package.

Without written documentation of all cases coming into the Revenue Cabinet and determination of type and likelihood of loss, there is an increased risk of an incomplete attorney letter. The contingent liability for the Revenue Cabinet could be understated without being detected.

Recommendation

We recommend the Revenue Cabinet’s Division of Legal Services implement a formal tracking system. This would consist of a ledger showing the date cases are received, who they are assigned to, and the date they are resolved. It should also include the classification of “Assessment” or “Refund” case, as well as the estimated probability of loss (i.e., Probable - greater than 75%, Possible - 50% to 75%, Remote - less than 50%).

Management’s Response and Corrective Action Plan

The Division of Legal Services is in the process of reviewing and improving the records and procedures referred to in this Record of Control Weakness/Record of Noncompliance (RCW/RNI). As pointed out in the RCW/RNI, improvements had been made to the relevant reports and records since last year. We believe that the improvements we are looking at, together with those that have already been made, should address the concerns noted.

FINDING 97-PY FINDING STATUS-27: Status Of Prior Year Audit Findings Related To The Comprehensive Annual Financial Report For The Year Ended June 30, 1996

Prior Year Material Weaknesses:

Prior Year Finding 1: *The Finance and Administration Cabinet Should Improve Procedures Having An Impact On The Assimilation Of The Cash And Investments In The Comprehensive Annual Financial Report An Accounting System Should Be Developed To Provide Control Over Department Transactions*

Our audit showed this finding was resolved for the year ended June 30, 1997.

Prior Year Finding 4: *The Revenue Cabinet Should Improve Receipt Procedures (Date Stamp)*

Our audit showed this finding was not resolved for the year ended June 30, 1997. See finding 97-REV-23.

Prior Year Finding 5: *The Revenue Cabinet Should Improve Controls Over Program Modifications*

Our audit showed this finding was resolved for the year ended June 30, 1997.

Prior Year Finding 6: *The Revenue Cabinet Should Utilize The Automatic Log-off Feature For Information Management Systems and Customer Information Control System Applications*

Our audit showed this finding was not resolved for the year ended June 30, 1997. See finding 97-REV-24.

Prior Year Finding 7: *The Revenue Cabinet Computer System Must Be Modified In Order To Process Year 2000 Data*

Our audit showed this finding was not resolved for the year ended June 30, 1997. See finding 97-REV-25.

Prior Year Finding 8: *The Revenue Cabinet Needs To Improve Tracking Procedures For Contingent Liabilities*

Our audit showed this finding was partially resolved for the year ended June 30, 1997. See finding 97-REV-26.

FINDING 97-PY FINDING STATUS-27: Status of Prior Year Audit Findings Related to the Comprehensive Annual Financial Report For The Year Ended June 30, 1996 (Continued)

Prior Year Reportable Conditions:

Prior Year Finding 10: *The Finance And Administration Cabinet's Procedures For Preparing The Comprehensive Annual Financial Report Should Be Better Documented and Improved*

Our audit showed this finding was partially resolved for the year ended June 30, 1997. See finding 97-FAC-2.

Prior Year Finding 11: *The Finance And Administration Cabinet Should Develop Procedures To Ensure Critical Application Systems Are Year 2000 Compliant*

Our audit showed this finding was resolved for the year ended June 30, 1997.

Prior Year Finding 12: *Controls Over Access To The Finance And Administration Cabinet's Security And Data Files Should Be Strengthened*

Our audit showed this finding was not resolved for the year ended June 30, 1997. See finding 97-FAC-6.

Prior Year Finding 13: *The Finance And Administration Cabinet Should Utilize The Automatic Log-Off For Customer Information Control System Applications*

Our audit showed this finding was not resolved for the year ended June 30, 1997. See finding 97-FAC-3.

Prior Year Finding 14: *The Finance And Administration Cabinet Should Develop Internal Control Procedures Which Ensure Automated Agencies' Balances Are Recorded Correctly In The Statewide Accounting And Reporting System's Fixed Asset File*

Our audit showed this finding was partially resolved for the year ended June 30, 1997. The finding relating to this topic is considered as an other matter for the year ended June 30, 1997 and not included in this report.

Prior Year Finding 15: *Logical Access Control Over The Unified Personnel And Payroll System Should Be Strengthened*

Our audit showed this finding was not resolved for the year ended June 30, 1997. See finding 97-Personnel-8.

FINDING 97-PY FINDING STATUS-27: Status of Prior Year Audit Findings Related to the Comprehensive Annual Financial Report For The Year Ended June 30, 1996 (Continued)

Prior Year Finding 16: *Personnel Cabinet Computer Systems Should Be Modified To Process Year 2000 Data Fields*

Our audit showed sufficient progress was made for this finding to be considered resolved for the year ended June 30, 1997.

Prior Year Finding 30: *An Accounting System Should Be Developed To Provide Control Over Kentucky Kare Transactions*

Our audit showed that this finding was partially resolved for the year ended June 30, 1997. The finding relating to this topic is considered as an other matter for the year ended June 30, 1997 and not included in this report.

Prior Year Finding 31: *The Personnel Cabinet Should Implement Procedures To Monitor Third-Party Administrator*

Our audit showed that this finding was resolved for the year ended June 30, 1997.

Prior Year Finding 32: *The Personnel Cabinet Should Require The Third-Party Administrator To Obtain A Service Center Audit Of Its Computer Application*

Our audit showed that this finding was resolved for the year ended June 30, 1997.

Prior Year Finding 33: *The Department Of Military Affairs Should Strengthen Its Procedures For Monitoring Subrecipients*

Our audit showed that this finding was not resolved for the year ended June 30, 1997. See finding 97-MilitaryAffairs-50.

Prior Year Finding 34: *The Kentucky Health Purchasing Alliance Should Establish Monitoring Procedures For Its Third Party Administrator*

Our audit showed that this finding was not resolved for the year ended June 30, 1997. See finding 97-KHPA-7.

Prior Year Finding 35: *The Department Of Education Should Develop Internal Control Procedures Which Reconcile Employer Share Between School District Records And An Amount Billed By Health Plan Services, Inc.*

The Commonwealth currently does not use a TPA to administer the billing of health insurance premiums. Personnel now performs this function. This finding is no longer valid.

**COMMONWEALTH OF KENTUCKY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 1997**

SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Reportable Conditions Relating to Internal Control and/or Compliance:

FINDING 97-CFC-28: The Cabinet For Families And Children Should Improve Audit Tracking And Review Procedures In Relation To The Low-Income Home Energy Assistance Program

State Agency: Cabinet for Families and Children

Federal Program: CFDA 93.568 – Low-Income Home Energy Assistance

Federal Agency: U.S. Department of Health and Human Services

Pass-Through Agency: Not Applicable

Compliance Area: Subrecipient Monitoring

Amount of Questioned Costs: None

The Department for Social Insurance's (DSI's) Energy Assistance Branch administers the energy assistance component of Low-Income Home Energy Assistance Program (LIHEAP) by subcontracting with the Kentucky Association of Community Action Agencies (KACA), which contracts directly with Community Action Agencies (CAAs). DSI administers the weatherization component of LIHEAP by contracting directly with the CAAs. As has been noted in prior years, the system to ensure receipt of all subrecipient audit reports for DSI's energy assistance and weatherization programs remained inadequate based on the following weaknesses:

- The Energy Assistance Branch did not adequately document the review and resolution of differences between audit reports and agency records. These differences were simply noted on the draft audit page detailing weatherization expenditures or the main cover page. Therefore, CFC did not know the amount of money due from each individual subrecipient, or the collective amount due to CFC when contracting with KACA or the CAAs.
- The Office of the Inspector General, CFC (OIG) originally declined to perform the audit report reviews for the year ended June 30, 1997, using the President's Council on Integrity and Efficiency (PCIE) Checklist. After a discussion with the auditors and CFC officials, the OIG verbally agreed to perform audit report reviews in April 1998. However, several problems have arisen as a result of the late agreement:

FINDING 97-CFC-28: The Cabinet For Families And Children Should Improve Audit Tracking And Review Procedures In Relation To The Low-Income Home Energy Assistance Program (Continued)

- At this time, the OIG is not required or bound to perform the reviews via a written contract. A written contract stating the duties to be performed by the OIG and the expectations of CFC could resolve any future disagreements between CFC and the OIG regarding the reviews.
- The OIG did not perform PCIE checklist reviews in a timely manner, or prior to the APA's office conducting a test of the audit reports. This is a result of OIG agreeing to conduct audit reviews for fiscal year 97 in May of 1998.
- In addition, testing of the audit status log, maintained by OIG, revealed that:
 - Three CAAs and KACA submitted final audit reports after the July 31, 1997 deadline. The audit reports for another nine CAAs are still in process and have not been finalized as of May 12, 1998.
 - Neither the OIG's office nor the Energy Assistance Branch has received the audit report for the Community Action of Lexington-Fayette, Bourbon, and Harrison Counties for SFY 96. The OIG's office only recently sent a letter of inquiry to the CAA requesting the Audit Report.
- The OIG failed to include two audits, the City of Louisville and Jefferson County, (audits conducted by the OIG) on the audit status log for fiscal years 96, as reported last year, and fiscal year 97. The auditor recently discovered that a waiver was issued by the Energy Assistance Branch accepting the City of Louisville and Jefferson County audits in place of the program-specific LIHEAP and Weatherization audits that were contractually required. No waiver has been issued for SFY 97.

An inadequate audit tracking system may result in audits being filed late or not at all, inadequate reporting, and failure to follow Federal guidelines. In addition, an inadequate audit tracking system makes it difficult to determine whether findings and questioned costs had been addressed and action was taken for any deficiencies discovered.

Written agreements for services should, at a minimum, be in writing to ensure a mutual understanding of the service to be provided, the duration of the service period, and any penalties for failure to perform the service in a timely fashion.

FINDING 97-CFC-28: The Cabinet For Families And Children Should Improve Audit Tracking And Review Procedures In Relation To The Low-Income Home Energy Assistance Program (Continued)

OMB Circular A-133 replaced OMB Circular A-128 as the governing regulation for fiscal years beginning after June 30, 1996. OMB Circular A-133, §.320 (a) states:

The audit shall be completed and the data collection form . . . shall be submitted within the earlier of 30 days after the receipt of the auditor's report(s), or nine months after the end of the audit period, unless a longer period is agreed to in advance by the cognizant or oversight agency for audit. (However, for fiscal years beginning on or before June 30, 1998, an audit shall be completed and the data collection form and reporting package shall be submitted within the earlier of 30 days after receipt of the auditor's report(s), or 13 months after the end of the audit period.)

Audits after June 30, 1998, must be submitted within 9 months instead of 13 months after the end of the agencies' fiscal year.

Additionally, §.400 (d) states,

Pass-through entity responsibilities. A pass-through entity shall perform the following for the Federal awards it makes:

(3) Monitor the activities of subrecipients as necessary to ensure that Federal awards are used for authorized purposes in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved.

(4) Ensure that subrecipients expending \$300,000 or more in Federal awards during the subrecipient's fiscal year have met the audit requirements of this part for that fiscal year.

(5) Issue a management decision on audit findings within six months after receipt of the subrecipients' audit report and ensure that the subrecipient takes appropriate and timely corrective action.

(6) Consider whether subrecipients audits necessitate adjustment of the entity's own records.

FINDING 97-CFC-28: The Cabinet For Families And Children Should Improve Audit Tracking And Review Procedures In Relation To The Low-Income Home Energy Assistance Program (Continued)

Recommendation

We recommend that DSI:

- Document the review and resolution of differences between audit reports and agency records by using an audit review reconciliation form or similar tool.
- Sign a written contract with either the OIG or an accounting firm to review future KACA and CAA audit reports.
- Perform PCIE checklist reviews within a reasonable time after completion and receipt by DSI of the CAA's audit report.
- Consider not contracting with or imposing penalties on CAAs which have draft audits or incomplete audits after the thirteen-month deadline.
- Consider not contracting with CAAs which fail to submit an audit report within 13 months from the end of the state fiscal year, such as the Community Action of Lexington-Fayette, Bourbon, and Harrison Counties.
- Require that the City of Louisville and Jefferson County audits be included on the audit status log, even if they are in process and not complete.

Management's Response and Corrective Action Plan

The Cabinet for Families and Children, during its recent reorganization, created the Office of Performance Enhancement. This office shall be responsible for vendor performance, including conducting monitoring and audit documentation and tracking required under OMB Circular A-133. The Division of Outcome Based Contracts has created a monitoring schedule for all contracts meeting OMB Circular A-133 requirements. The Contracts Accountability Branch shall develop the appropriate Cabinet monitoring teams, assign monitoring tasks, and maintain necessary logs documenting assignments, completions, and reports. The Contracts Management Branch has designated a staff person whose primary function shall be to document receipt of audits required under OMB Circular A-133, enter all required information including the CFDA number in the tracking system, and track the audit reviews and resolution of differences. The Cabinet has also negotiated a contract with the Office of Inspector General for the review of FY97 CAA and LIHEAP OMB Circular A-133 audits. For FY'98 audits, the Cabinet shall either perform these reviews with an existing staff or contract with an outside vendor. Not contracting with a CAA is not practical because client services would not be delivered in the service areas. The Cabinet must develop other penalties.

FINDING 97-CFC-28: The Cabinet For Families And Children Should Improve Audit Tracking And Review Procedures In Relation To The Low-Income Home Energy Assistance Program (Continued)

Not contracting with a CAA is not practical because client services would not be delivered in the service areas. The Cabinet must develop other penalties. The Energy Assistance Branch has issued a waiver accepting the City of Louisville and Jefferson County audits in place of specific LIHEAP and Weatherization audits for FY 98.

FINDING 97-CFC-29: The Cabinet For Families And Children Should Improve Controls Over Subrecipient Monitoring Within The Low-Income Home Energy Assistance Program

State Agency: Cabinet for Families and Children

Federal Program: CFDA 93.568 – Low-Income Home Energy Assistance

Federal Agency: U.S. Department of Health and Human Services

Pass-Through Agency: Not Applicable

Compliance Area: Subrecipient Monitoring

Amount of Questioned Costs: None

During our review of subrecipient monitoring relating to the LIHEAP program, we noted the following weaknesses:

- The Energy Assistance Branch subcontracts KACA, which contracts with the individual CAAs, to administer the *energy assistance* component of LIHEAP. KACA failed to perform the following monitoring duties:
 - Monitor ten subcontractor CAAs during the subgrant period (July 1995 to June 1996) when monitoring could have been beneficial to the program.
 - Submit monitoring reports for fourteen CAAs to DSI within two weeks of monitoring the subcontractor.
 - Develop a schedule of the monitoring visits planned for each subcontractor.

Part of the problem of monitoring the CAA after the end of fiscal year occurred because a KACA employee was relieved of employment in March and refused to submit the monitoring reports to the agency. The agency replaced the employee in June and the new employee re-monitored several of the CAAs. Similar monitoring problems were noted in the prior year audit.

- DSI did not verify that CAAs corrected or reworked problems discovered during the On-Site Dwelling Reviews. Reviewers may re-examine items requiring re-work at his/her discretion. However, DSI neither retained documentation of re-checked items, nor maintained a log tracking which problems had been corrected or were in the process of being corrected. This problem was noted in the prior year.
- DSI did not monitor the KACA during fiscal year 1997.
- The standard contract between DSI and Community Action Agencies to administer the weatherization component of the LIHEAP did not require the submission of a final audit report on that agency within thirteen months from the agencies' fiscal year end. This problem was noted in the prior year.

FINDING 97-CFC-29: The Cabinet For Families And Children Should Improve Controls Over Subrecipient Monitoring Within The Low-Income Home Energy Assistance Program (Continued)

- The auditor could not determine when the fiscal monitoring was conducted nor when the reports were written.

Page 2g, paragraph 1.28 of DSI's contract with KACA (the Second Party) states that DSI will:

Monitor each subcontractor at least once after program implementation to assure the appropriate delivery of services and documentation of case actions and billings under this contract. The Second Party will take corrective action for all problems identified. The Second Party shall provide the Cabinet with a written monitoring report, within two weeks of monitoring a subcontractor, which shall include a description of any problems identified and the corrective actions to be taken. The Second Party will follow up all corrective actions and report the resolution to the Cabinet. The Second Party shall develop a schedule, showing for each subcontractor the date(s) for each monitoring visit, and provide this schedule to the Cabinet prior to its implementation.

Section 2.3 of DSI's contract with KACA states that DSI will, "monitor the activities performed pursuant to this contract." DSI did not comply with the contract requirements.

The LIHEAP State Plan, page 29, states, "The Department for Social Insurance will monitor the Kentucky Association for Community Action and at least four of its subcontractors at least once during the program to assure that their operation of the program is in compliance with the Federal statute and all contract requirements."

Finally, OMB Circular A-133 §.400 (d) (3) states:

Pass-through entity responsibilities. A pass-through entity shall perform the following for the Federal awards it makes:

Monitor the activities of subrecipients as necessary to ensure that Federal awards are used for authorized purposes in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved.

FINDING 97-CFC-29: The Cabinet For Families And Children Should Improve Controls Over Subrecipient Monitoring Within The Low-Income Home Energy Assistance Program (Continued)

In addition, OMB Circular A-133, §.320 (a) states:

The audit shall be completed and the data collection form . . . shall be submitted within the earlier of 30 days after the receipt of the auditor's report(s), or nine months after the end of the audit period, unless a longer period is agreed to in advance by the cognizant or oversight agency for audit. (However, for fiscal years beginning on or before June 30, 1998, an audit shall be completed and the data collection form and reporting package shall be submitted within the earlier of 30 days after receipt of the auditor's report(s), or 13 months after the end of the audit period.)

Audits after June 30, 1998 must be submitted within 9 months instead of 13 months after the end of the agencies' fiscal year.

Recommendation

We recommend that DSI:

- Due to KACA's continuing monitoring problems, either impose penalties if KACA does not meet contract requirements or terminate the KACA contract and allow the Energy Assistance Branch to administer energy assistance as well as weatherization.
- Develop a plan of action for any material noncompliance with KACA's contract, which would include written notification to proper Cabinet authorities.
- Follow up on CAA technical findings which jeopardize the client's health and safety or would be a cost-effective correction in order to ensure that the findings were satisfactorily reworked.
- Maintain a log indicating the current status of the items requiring rework, including dates the rework was completed by the agency and verified as satisfactory by DSI.
- Maintain log of detailing the status of contract compliance and fiscal monitoring reports and include KACA.
- Include a line for the date monitored and date report completed on the fiscal monitoring report.

FINDING 97-CFC-29: The Cabinet For Families And Children Should Improve Controls Over Subrecipient Monitoring Within The Low-Income Home Energy Assistance Program (Continued)

Recommendation (Continued)

We further recommend that (in relation to weakness 4) contracts between DSI and the CAAs for fiscal years on or before fiscal year 1998 include a requirement that the final audit report be submitted to DSI no later than thirteen months from the end of the agencies fiscal year as required by OMB Circular A-133. For fiscal years after 1998, a nine-month requirement should be included in the contracts.

Finally, the standard contract between DSI and the KACA required the submission of a final audit report within thirteen months from the agencies fiscal year end. For contracts effective for SFY 99, the contract should be changed to require a final audit report nine months instead of thirteen after the end of the agency's fiscal year.

Management's Response and Corrective Action Plan

The Cabinet for Families and Children, during its recent reorganization, created the Office of Performance Enhancement. This Office shall be responsible for vendor performance, including conducting monitoring and audit documentation and tracking required under OMB Circular A-133. The Division of Outcome Based Services has created a monitoring schedule for all contracts meeting OMB Circular A-133 requirements. The Contracts Accountability Branch shall develop the appropriate Cabinet monitoring teams, assign monitoring tasks, and maintain necessary logs documenting assignments, completions, and reports. The Contracts Management Branch has designated a staff person whose primary function shall be to document receipt of audits required under OMB Circular A-133, enter all required information including the CFDA number in the tracking system, and track the audit reviews and resolution of differences. The Cabinet has also negotiated a contract with the Office of Inspector General for the review of FY97 CAA and LIHEAP OMB Circular A-133 audits. For FY'98 audits, the Cabinet shall either perform these reviews with existing staff or contract with an outside vendor.

DCBS will ensure KACA complies with contract requirements through increased oversight or penalties. The Energy Assistance Branch is not staffed sufficiently to conduct daily operations of the LIHEAP program and administer the weatherization program on a statewide basis simultaneously.

FINDING 97-CFC-29: The Cabinet For Families And Children Should Improve Controls Over Subrecipient Monitoring Within The Low-Income Home Energy Assistance Program (Continued)

Management's Response and Corrective Action Plan (Continued)

DCBS will meet with the Office of Performance Enhancement to develop specific actions of material noncompliance, which would initiate written notification to Cabinet authorities. This plan of action must be added to the contract language through a contract amendment.

A process and form has been developed to document technical findings jeopardizing the client's health or safety, describing the problem and needed corrective action, identifying a deadline for addressing the problem and documenting date of completion. This process will be implemented during FY98-99.

A log will be maintained by the Branch detailing the status reworks, including agency documented completion dates. On-site verification will be performed by the Branch during the first subsequent agency visit. Emergency or extraordinary reworks will be verified immediately upon completion.

A log will be maintained by the Branch detailing the status of contract compliance and fiscal monitoring reports, including KACA.

A line has been added for the date monitored and the date report completed on the fiscal monitoring report.

The nine month requirement for audits has been inserted in both LIHEAP and weatherization contracts for FY 1998-99.

FINDING 97-CFC-30: The Department For Social Insurance Should Improve Controls Over Subrecipient Monitoring Within The Job Opportunity And Basic Skills Program Of Temporary Assistance For Needy Families

State Agency: Cabinet for Families and Children

Federal Program: CFDA 93.558 – Temporary Assistance For Needy Families

Federal Agency: U.S. Department of Health and Human Services

Pass-Through Agency: Not Applicable

Compliance Area: Subrecipient Monitoring

Amount of Questioned Costs: None

As part of our audit of the Job Opportunities and Basic Skills (JOBS) program component of Temporary Assistance for Needy Families (TANF), we examined CFC's monitoring of the Area Development Districts (ADDs), which expend Federal funds as subgrantees. DSI policy requires that each ADD be monitored annually. However, only five of the fifteen ADDs were monitored for SFY 97. The Workforce Development Cabinet, which also received Federal funds as a subgrantee, also was not monitored.

Four ADDs and the Workforce Development Cabinet were not monitored for SFY 96.

In addition, we noted that the agency failed to maintain a tracking list of monitoring assignments. The agency had no record of monitoring assignments made or completed or of monitoring reports prepared.

45 CFR 92.26 states, in part, that "State or local governments . . . that receive federal financial assistance and provide \$25,000 or more of it in a fiscal year to a subgrantee shall: . . . (2) Determine whether the subgrantee spent federal assistance funds provided in accordance with applicable laws and regulations."

Further, 45 CFR 92.40 (a) states, "Grantees are responsible for managing the day-to-day operations of grant and subgrant supported activities. Grantees must monitor grant and subgrant supported activities to assure compliance with applicable federal requirements and that performance goals are being achieved. Grantee monitoring must cover each program, function or activity."

Finally, OMB Compliance Supplement, Part 3, page 43, states, "A pass-through entity is responsible for monitoring the subrecipient's activities to provide reasonable assurance that the subrecipient administers federal awards in compliance with federal requirements." A tracking system would help assure timely completion of required monitoring of subrecipients of Federal funds.

FINDING 97-CFC-30: The Department For Social Insurance Should Improve Controls Over Subrecipient Monitoring Within The Job Opportunity And Basic Skills Program Of Temporary Assistance For Needy Families (Continued)

Recommendation

We recommend that DSI follow established procedures to ensure subrecipients are monitored in accordance with Federal requirements.

In addition, we recommend that a tracking system be developed to adequately track the progress of audits and reports of subgrantees that receive Federal funds.

Management's Response and Corrective Action Plan

The Agency agrees with the findings. The Cabinet for Families and Children, during its recent reorganization, created the Office of Performance Enhancement. This office shall be responsible for vendor performance, including conducting monitoring and audit documentation and tracking required under OMB Circular A-133. The Division of Outcome Based Contracts has created a monitoring schedule for all contracts meeting OMB Circular A-133 requirements. The Contracts Accountability Branch shall develop the appropriate Cabinet monitoring teams, assign monitoring tasks, and maintain necessary logs documenting assignments, completions, and reports. The Contracts Management Branch has designated a staff person whose primary function shall be to document receipt of audits required under OMB Circular A-133; enter all required information, including the CFDA number in the tracking system; and track the audit reviews and resolution of differences.

FINDING 97-CFC-31: Sufficient Supporting Documentation Should Be Maintained For Child Care Development Expenditures

State Agency: Cabinet for Families and Children

Federal Program: CFDA 93.575 – Child Care and Development Block Grant

Federal Agency: U.S. Department of Health and Human Services

Pass-Through Agency: Not Applicable

Compliance Area: Subrecipient Monitoring

Amount of Questioned Costs: \$49,214

When testing Child Care Development expenditures for (E415) program administration costs for outside vendors (day cares) for fiscal year 1997, we tested 40 day care centers and noted that not all centers provided sufficient documentation. Eighteen files did not have enough documentation to determine if they agreed with the attributes of that eighteen,

- Three files could not be located;
- Ten files did not have documentation to accompany the award amount for the provider; and
- Five files had a award amount that exceeded the documentation.

The failure to maintain sufficient supporting documentation resulted in a known questioned cost of \$49,214, with a best estimate of total questioned costs (likely questioned costs) of \$615,179.

Recommendation

For an improvement to the E415 expenditures, we recommend a thorough look at documentation sent in for reimbursement of the Day Care provider. This documentation should always be kept and maintained to provide reasonable assurance of expenditures.

Management's Response and Corrective Action Plan

We agree that for FY 97 we had poor documentation concerning acceptable expenditures. In 1997-98, the Cabinet began requiring providers to submit receipts for each item purchased for which they were requesting reimbursement. The Cabinet also began referring to the approved budget within the contract to assure that the purchase was approved within the contract. For FY 99, two additional staff has been assigned to review, process, and document provider receipts.

FINDING 97-CFC-31: Sufficient Supporting Documentation Should Be Maintained For Child Care Development Expenditures (Continued)

Management's Response and Corrective Action Plan (Continued)

The Cabinet for Families and Children, during its recent reorganization, created the Office of Performance Enhancement. This office shall be responsible for vendor performance, including conducting monitoring and audit documentation and tracking required under OMB Circular A-133. The Division of Outcome Based Contracts has created a monitoring schedule for all contracts meeting OMB Circular A-133 requirements. The Contracts Accountability Branch shall develop the appropriate Cabinet monitoring teams, assign monitoring tasks, and maintain necessary logs documenting assignments, completions, and reports. The Contracts Management Branch has designated a staff person whose primary function shall be to document receipt of audits required under OMB Circular A-133, enter all required information, including the CFDA number in the tracking system, and track the audit reviews and resolution of differences.

FINDING 97-CFC-32: The Department Of Social Services Should Improve Its Audit Tracking And Review System

State Agency: Cabinet for Families and Children

Federal Program: CFDA 93.575 – Child Care and Development Block Grant

Federal Agency: U.S. Department of Health and Human Services

Pass-Through Agency: Not Applicable

Compliance Area: Subrecipient Monitoring

Amount of Questioned Costs: None

When testing Child Care Development Block Grant (CCDBG) subrecipient SFY 96 audit reports for receipt and review in SFY 97, we noted the following weaknesses for the fourteen providers tested:

- Six audit reports were not received timely.
- Two audit reports were not date stamped, so we could not determine if the reports were received timely or not.
- Five audit reports did not have closure letters.
- One closure letter did not have an accompanying audit report.
- Two audit reports contained deficiencies, findings, and/or questioned costs which were not resolved.
- Three providers did not have audit reports or closure letters.

Similar weaknesses were also noted during the SFY 96 audit of CCDBG.

In addition, we discovered that of the fourteen providers tested, four were not tracked on the SFY 96 audit tracking log. However, audit reports and three closure letters existed for these providers. The SFY 96 audit tracking log did not contain complete information in the type of audit, Federal program name, and date due data fields, so the program the audit relates to is not identifiable. The SFY 96 and SFY 97 logs also did not identify the amount of the contract awarded and Catalog of Federal Domestic Assistance (CFDA) number.

Furthermore, Department for Social Services (DSS) did not perform a documented review of subrecipient audit reports in accordance with an established review guide. In some instances, other state agencies performed this review on audit reports received by DSS. For example, the Department of Education reviewed Board of Education audits and the Department for Local Government reviewed the ADD audits. However, DSS did not obtain any documentation from those state agencies that the audit reports complied with Federal regulations. Without that documentation, DSS could not ascertain the adequacy of the audits submitted.

An inadequate audit tracking system may result in audits being filed late or not at all, incorrect reports, and lack of closure within Federal guidelines. Without a thorough review of the audit reports via an audit review guide, the DSS cannot be sure that subrecipient audit reports are complying with Federal regulations.

FINDING 97-CFC-32: The Department Of Social Services Should Improve Its Audit Tracking And Review System (Continued)

Further, an inadequate audit tracking log makes it difficult to determine whether:

- Findings and questioned costs were addressed in the closure letter.
- Action was taken to address deficiencies discovered.
- Findings and questioned costs were resolved within six months of audit report receipt.
- The subrecipient met the applicable audit requirements.

A log that does not contain headings or columns sufficient to identify the amounts of the contracts awarded, Federal program name, and/or CFDA number make it difficult to identify which program the log is kept for and whether an audit is required (for SFY 96, contracts over \$25,000 require audits; for SFY 97, contracts over \$300,000 require audits).

OMB Circular A-133 replaced OMB Circular A-128 as the governing regulation for fiscal years beginning after June 30, 1996. OMB Circular A-133, §.320 (a) states:

The audit shall be completed and the data collection form . . . shall be submitted within the earlier of 30 days after the receipt of the auditor's report(s), or nine months after the end of the audit period, unless a longer period is agreed to in advance by the cognizant or oversight agency for audit. (However, for fiscal years beginning on or before June 30, 1998, an audit shall be completed and the data collection form and reporting package shall be submitted within the earlier of 30 days after receipt of the auditor's report(s), or 13 months after the end of the audit period.)

Audits after June 30, 1998, must be submitted within nine months instead of thirteen months after the end of the agencies' fiscal year.

Also, §.400 (d) states:

Pass-through entity responsibilities. A pass-through entity shall perform the following for the Federal awards it makes:

(3) Monitor the activities of subrecipients as necessary to ensure that Federal awards are used for authorized purposes in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved.

(4) Ensure that subrecipients expending \$300,000 or more in Federal awards during the subrecipient's fiscal year have met the audit requirements of this part for that fiscal year.

FINDING 97-CFC-32: The Department Of Social Services Should Improve Its Audit Tracking And Review System (Continued)

(5) Issue a management decision on audit findings within six months after receipt of the subrecipients audit report and ensure that the subrecipient takes appropriate and timely corrective action.

(6) Consider whether subrecipients' audits necessitate adjustment of the entity's own records.

DSS, as the oversight agency, must ensure that subrecipients are complying with applicable Federal regulations governing the funds distributed. These Federal regulations require audit reports and schedules which should include specific types of information and opinions. Part of the oversight function is to ensure auditors are submitting audit reports that comply with Federal regulations. Effective internal control procedures require that an effective tracking system be established to properly account for all audit reports and ensure that an in-depth review of subrecipient audit reports be made and documented on a timely basis.

Recommendation

We recommend that DSS:

- Compare the list of CCDBG contracts to the audit tracking report to ensure all providers required to obtain an audit under OMB Circular A-133 are listed on the audit tracking log.
- Ensure subrecipient audits are received and reviewed in a timely manner.
- Perform in-depth reviews of audits utilizing an accepted review guide and/or obtain from other state agencies documentation that they have performed the review and the audit complies with Federal regulations.
- Appropriately maintain the audit tracking log so the progress of audit reports can be adequately tracked.

Adequately tracking and reviewing audit reports is important for internal control and compliance with OMB Circular A-133. At present, one employee works two or three days each week on tracking audit reports. We believe to implement the recommendations above, additional time, effort, and staff must be utilized.

FINDING 97-CFC-32: The Department Of Social Services Should Improve Its Audit Tracking And Review System (Continued)

Management's Response and Corrective Action Plan

We concur with the recommendations. The Cabinet for Families and Children, during its recent reorganization, created the Office of Performance Enhancement. This office shall be responsible for vendor performance, including conducting monitoring and audit documentation and tracking required under OMB Circular A-133. The Division of Outcome Based Contracts has created a monitoring schedule for all contracts meeting OMB Circular A-133 requirements. The Contracts Accountability Branch shall develop the appropriate Cabinet monitoring teams, assign monitoring tasks, and maintain necessary logs documenting assignments, completions, and reports. The Contracts Management Branch has designated a staff person whose primary function shall be to document receipt of audits required under OMB Circular A-133; enter all required information, including the CFDA number in the tracking system; and track the audit reviews and resolution of differences.

FINDING 97-CFC-33: Discovery And Collection Of Overpayments Of TANF Funds Should Be Identified And Pursued Promptly To Maximize Recovery

State Agency: Cabinet for Families and Children

Federal Program: CFDA 93.558 – Temporary Assistance For Needy Families

Federal Agency: U.S. Department of Health and Human Services

Pass-Through Agency: Not Applicable

Compliance Area: Allowable Costs - Collection of Overpayments

Amount of Questioned Costs: \$23,175

DSI Field Service personnel did not establish claims in a timely manner after their discovery, and did not act promptly to inactivate and forward claims to the Collections Branch, in the Division of Administrative Reviews, when claimees failed to reimburse CFC.

We selected a random sample of 93 claims of overpayment that were established (i.e., confirmed as being an overpayment after first being listed as a possible overpayment) between October 18, 1996, and June 30, 1997, and found that:

- In 66.67% of claims, the period of time between date of discovery and date of establishment was excessive.
- In 21.59% of claims, the period of time between date of establishment and first payment or inactivation was excessive.
- In 19.74% of claims, the period of time between inactivation and transfer to the Collections Branch was excessive.

We noted that CFC hired additional staff during SFY 97 to eliminate the backlog of old potential claims that had not yet been established, and that this additional effort had the effect of *increasing* the number of claims established in SFY 97 that had been discovered much earlier.

CFC personnel state that delays in establishing claims were due to understaffing. Additional staff were paid on contract during SFY 97 to handle the backlog of cases to be established, with the result that many cases, finally established during SFY 97, were old ones.

The KCA database, which tracks claims being pursued by local DSI offices, and the KCL database, which tracks claims that are being pursued by the Collections Branch of CFC, are separate files which have limited interface with each other. This scattering of information in more than one location makes tracking much harder. In addition, information can get lost when claims are transferred from one database to the other.

FINDING 97-CFC-33: Discovery And Collection Of Overpayments Of TANF Funds Should Be Identified And Pursued Promptly To Maximize Recovery (Continued)

The KCA system does not include an automatic reminder to field office personnel to inactivate claims, or to forward inactive claims to Collections, after an appropriate amount of time.

Field Services Operation Manual, Vol. I, section 1800 states, in part, "Repayment must be pursued on all overpayments discovered on or after April 1, 1982, regardless of the amount or when the overpayment occurred."

904 KAR 2:016, Section 10 (1) states, "Necessary action will be taken promptly to correct and recoup any overpayments."

Recommendation

We strongly recommend that the KCA and KCL databases, now separate files for claims being pursued locally and claims being pursued by Collections, be fully integrated. We understand that KCL is to be completely rewritten in the immediate future to make it Year 2000 compliant. There will never be a better chance to redesign the system. A single system, capable of tracking a case from day one, would greatly improve the efficiency of collection efforts.

We also recommend adding to the KCA system an automatic reminder to field office personnel to inactivate claims, and to forward inactive claims to Collections, after an appropriate amount of time without recovery of an overpayment.

We commend CFC's effort during SFY 97 to eliminate the backlog of old cases and urge that this effort be continued as needed.

Management's Response and Corrective Action Plan

We agree with the first recommendation. At the urging of USDA, not only will KCA and KCL be linked, but KAMES will also be linked so that the eligibility/claims worker will never have to touch the claim once it is established. All transfers to and from the Collections Branch as well as automated benefit reduction and automated notices will be processed without worker intervention.

In regards to the second recommendation, it should be noted that KAMES provides spot checks to field staff that does exactly this. When a member is added or makes an application, there is a prompt which states "claim exists for highlighted member." In addition, there is a spot check sent automatically which tells the worker "case discontinued, active claim." The worker should then automatically transfer the claim to the Collections Branch.

FINDING 97-CFC-33: Discovery And Collection Of Overpayments Of TANF Funds Should Be Identified And Pursued Promptly To Maximize Recovery (Continued)

Management's Response and Corrective Action Plan (Continued)

Additionally, there are listings on RMDS that identify those claims that are inactive and from which no benefit recovery is being made. Report HRKIPR48 identifies claims that need to be returned from the Collections Branch. As stated above, all transfers to and from the Collections Branch, as well as automated notices benefit reduction will occur without worker intervention.

Finally, the auditor recommends continuation of the claims contractor process. Due to the financial and other considerations, this was not continued this fiscal year. It can be evaluated for the upcoming fiscal year in coordination with this Cabinet's restructuring plan and regional control.

FINDING 97-CFC-34: The Department For Social Insurance Should Implement Procedures To Ensure Adequate Documentation Exists For Transportation Payments To Participants

State Agency: Cabinet for Families and Children

Federal Program: CFDA 93.558 – Temporary Assistance For Needy Families

Federal Agency: U.S. Department of Health and Human Services

Pass-Through Agency: Not Applicable

Compliance Area: Eligibility of Transportation Costs

Amount of Questioned Costs: \$1,290

Supportive Services provides transportation payments to participants in Kentucky Works at a rate of \$3 per day traveled. Participants and their caseworkers estimate how many travel days will be made during the coming month and payment is made based on the estimate. The following month, actual days traveled are reported, and the succeeding month's travel payments are adjusted for the prior month's actual days traveled. During our SFY 97 review of these transportation payments to participants in Kentucky Works, we noted numerous problems.

- 98% of the questioned cost above, or \$1,266, is due to lack of documentation. Seven of the cases selected could not be located at all. Twenty-one of the 55 cases tested did not have a completed form for the subsequent month, when actual days traveled should have been reported. In one case, verification of college attendance was not located.
- In six cases, the recipient traveled either more or fewer days than estimated, but no apparent effort was made to recover overpayments or reimburse underpayments. These cases resulted in overpayments of \$24 and underpayments of \$27.

This problem is not new. Similar problems were noted in the SFY 96 audit. No improvement is evident for SFY 97.

45 CFR 92.20 (a) (2) states: "Fiscal control and accounting procedures of the State. . . must be sufficient to permit the tracing of funds to a level of expenditures adequate to establish that such funds have not been used in violation of the restrictions and prohibitions of applicable statutes."

45 CFR 92.42 (b) (1) states " . . . records must be retained for three years from the starting date specified in paragraph (c)."

FINDING 97-CFC-34: The Department For Social Insurance Should Implement Procedures To Ensure Adequate Documentation Exists For Transportation Payments To Participants (Continued)

Recommendation

We note with approval that for SFY 98 the method of handling these expenditures was changed. The new system, which involves flat rate payments, should result in fewer problems next year.

We recommend that CFC Field Office supervisors emphasize to all caseworkers the necessity of ensuring that complete records on each case are created and maintained.

Management's Response and Corrective Action Plan

We appreciate the auditor's note that the method of making transportation payments as a supportive service for person's participating in the Kentucky Works program (formerly the JOBS program) is changed and should result in fewer problems next year.

We agree to emphasize to field staff the importance of ensuring that complete records on each case are created and maintained.

FINDING 97-CFC-35: The Department For Social Insurance Should Implement Procedures To Ensure Adequate Support Documentation Is Maintained

State Agency: Cabinet for Families and Children

Federal Program: CFDA 93.558 – Temporary Assistance For Needy Families

Federal Agency: U.S. Department of Health and Human Services

Pass-Through Agency: Not Applicable

Compliance Area: Eligibility of Nonrecurring Payments

Amount of Questioned Costs: \$777

During our SFY 97 review of Supportive Services' nonrecurring payments to participants in Kentucky Works, we noted the following types of errors in the handling of these payments:

- For eleven of 57 payments sampled, logs listing payments approved were not located.
- For nine of 57 payments sampled, PA-32s (or equivalent forms) were not located.
- For two of 57 payments sampled, completed PA-32s were not located, but case workers' copies were located.

Of PA-32s returned:

- One was not signed by the participant,
- One was not prenumbered, and
- Twenty-one PA-32's unused lines were not crossed out to prevent the addition of unauthorized goods or services.

Of logs returned,

- Eight did not include the date the PA-32 was returned.

These problems are not new. Similar problems were noted in the SFY 96 audit. No improvement is evident since the prior audit.

Federal regulations, 45 CFR 92.20 (a) (2) and 45 CFR 92.42 (b) (1), which were cited on the previous page, apply here, as well.

45 CFR 92.20 (a) (2) states: "Fiscal control and accounting procedures of the State. . . must be sufficient to permit the tracing of funds to a level of expenditures adequate to establish that such funds have not been used in violation of the restrictions and prohibitions of applicable statutes."

FINDING 97-CFC-35: The Department For Social Insurance Should Implement Procedures To Ensure Adequate Support Documentation Is Maintained (Continued)

45 CFR 92.42 (b) (1) states “ . . . records must be retained for three years from the starting date specified in paragraph (c).”

Recommendation

Records should be produced and maintained to adequately support expenditures. Because the problem of missing documentation is so pervasive (see also CFC Finding 97-CFC-7) we recommend that CFC consider developing new procedures for maintaining participant files. Procedures currently in place do not appear to work well.

We recommend that supervisors review, with all caseworkers, the need to complete and review all forms before payments are approved.

Management’s Response and Corrective Action Plan

It is agreed that records should be produced and maintained to adequately support expenditures for supportive services for participants in the Kentucky Works Program. Procedures currently in place for maintaining participant files will be reviewed.

We agree with the second recommendation and will advise field staff of the importance of obtaining and reviewing completed forms before supportive service payments are made.

FINDING 97-CFC-36: The Department For Social Insurance Should Implement Procedures To Ensure Adequate Support Documentation Is Maintained

State Agency: Cabinet for Families and Children

Federal Program: CFDA 93.658 – Foster Care – Title IV-E

Federal Agency: U.S. Department of Health and Human Services

Pass-Through Agency: Not Applicable

Compliance Area: Eligibility

Amount of Questioned Costs: None

During our review of CFC's Foster Care Title IV-E case files for adequate internal controls, compliance with Federal regulations, and compliance with the eligibility sections of the CFC Program Manual, we noted the following exceptions:

- Eight social security cards out of 54 case files examined were missing.
- Six DSS-110 forms (Receiving Report-Imprest Cash Vouchers) out of 54 case files examined were missing.
- Six DSS-111A or DSS114 forms (provider contracts) out of 54 case files examined were missing.
- Five eligibility re-determinations (which should be performed every six months), out of the 54 case files examined, were performed late.

Based on the lack of documentation found during our review, internal controls ensuring proper determination of eligibility and compliance with Federal regulations for Foster Care are not functioning adequately. For controls to ensure proper determination of eligibility, there should be an observable record of documents used to determine and re-determine eligibility. While eligibility controls appear to be functioning, due to the lack of supporting documentation, we cannot determine if the eligibility controls are operating effectively and expenditures are in compliance with program requirements.

Problems with missing DSS-111As, and DSS-114As without updated information and late re-determinations were also reported to CFC as a result of the SFY 96 audit.

The lack of DSS-111As or DSS-114s in the file resulted in \$3,911 of actual questioned costs charged to the Federal government. When the error is projected to the population, the result is \$294,588 in questioned costs charged to the Federal government.

FINDING 97-CFC-36: The Department For Social Insurance Should Implement Procedures To Ensure Adequate Support Documentation Is Maintained (Continued)

Good internal controls dictate that eligibility for the Foster Care program be adequately documented. The state is responsible for the care and placement of foster children. Whether or not the state meets the responsibility can best be determined through the examination of case files and the documents in the case files.

Public Law 96-272, Section 475 (5) (B) of Part E requires that all cases be re-determined every six months.

According to the DSS Program Manual, Chapter IV, Family and Children Services section, the DSS-111A brings the foster home contract into effect for a particular child. The Manual states that at the time the child is placed in foster care, the worker should complete section A and B of the DSS-111A and take it to the foster parent to sign in section C.

The Out of Home Section in Chapter IV of the DSS Program Manual requires that the DSS-111A be updated when a rate for a child already in foster care is changed.

Recommendation

We recommend that CFC:

- Develop procedures to reduce or eliminate the likelihood that a child's case file will be misplaced.
- Develop procedures to ensure that copies of the child's social security card and DSS-110s are maintained in the child's case file.
- Complete DSS-111As when a child is placed in a foster home *and* when the rate changes for a child already placed. These forms should be retained in the case file.
- Perform re-determinations of eligibility every six months. The re-determinations should be documented on the DSS Form 1262 and placed in the child's case file.

Management's Response and Corrective Action Plan

The fact that case files were not available for the auditor timely does not mean that errors, such as the child not receiving "timely eligibility redeterminations, could occur." Furthermore, redeterminations are completed to determine continued reimbursability, not eligibility.

FINDING 97-CFC-36: The Department For Social Insurance Should Implement Procedures To Ensure Adequate Support Documentation Is Maintained (Continued)

Management's Response and Corrective Action Plan (Continued)

- *Federal regulations do not require social security numbers or cards for Title IV-E eligibility (ACYF-PA-86-01). Social Security numbers are used for Medicaid, but the KAMES system verifies social security numbers nightly on the SVES system. If a correction is needed, the worker can make changes based on this system's verification. Although the Social Security card is listed on form DSS-1259, there is no mention in state policy or the state plan of a requirement to send the card.*

Our system for ensuring that the same child does not receive benefits under two different last names is the authorization by the Family Services Worker and Family Services Office Supervisor.

- *Individual 110s are not relevant to our IV-E claim. We claim IV-E from a foster care pool, currently based on KAMES. DSS-110s have never been maintained in IV-E cases. However, in the future, DSS-110s will be available in TWIST, should the auditor wish to review them.*
- *The six missing DSS-111 As and DSS-114s were from Jefferson and Bluegrass/Fayette Districts. The fact that they were missing does not mean that the cases were ineligible. This is a work procedure problem and will be brought to the attention of the two districts who had documents missing. In the future, the forms can be found on TWIST.*
- *The section of Public Law 96-272 cited by auditors (475 (5) B section E) refers to a judicial or administrative review, not a IV-E redetermination. Federal Title IV-E regulations and statute are silent on the schedule for the redetermination of IV-E "eligibility" (should be reimbursability, not eligibility). The Kentucky Title IV-E state plan is silent on the redetermination schedule. It is a policy manual compliance factor and not a case eligibility factor.*

DSS Policy has required redeterminations every six months. Because of the increase in case loads for the Children's Benefit Workers (CBWs), and with the implementation of TWIST, six-month redeterminations are not necessary. TWIST will supply ticklers to the CBWs when a change in placement, or an exit from care occurs. A request to Division of Policy Development will be submitted to reflect the change from 6- to 12-month redeterminations. In the future, all documentation will be recorded in TWIST. The audit report consideration of redetermination timeliness is not an eligibility factor.

FINDING 97-CFC-36: The Department For Social Insurance Should Implement Procedures To Ensure Adequate Support Documentation Is Maintained (Continued)

Auditor's Response

We believe maintaining a copy of the child's social security card in the case file is a good internal control, even though not required by Federal regulations. The majority of case files already contained copies of social security cards. Also, form DSS-1259 is a cover memorandum used when making referrals for eligibility determinations and other benefits for children in out-of-home care. The form has spaces allowing the family services worker to mark that a copy of the child's social security card is included in the attached documents, or apply for a social security card. We recommend that a requirement to include a copy of the child's social security card in the case files be added to the policy manual.

The DSS-110 Request for Payment form itemizes the cost of providing care for a child. Only six of the 54 case files were missing DSS-110s. Maintaining the DSS-110s in the case files is beneficial if the field office receives a complaint about the amount of money received and needs to verify the correct amount or if the DSS-110 is lost in the mail and never arrives at the Frankfort office. Since the majority of case files did contain DSS-110s, though there is apparently no written policy requiring the DSS 110s to be in the case file at this time, we believe the agency should institute a formal policy to maintain the DSS-110 in the case file. Maintaining copies of the DSS-110s in the case file is a good internal control and a consistent policy should be established.

Since the DSS 111As and DSS 114s were missing, we could not determine whether or not the cases were eligible. In order for this determination to be made, the DSS 111As and DSS-114s should be maintained in the case file.

The agency should comply with the agency's written policy requiring re-determination of eligibility every six months until the effective date of the new policy requiring re-determination every twelve months.

The changes resulting from the implementation of the TWIST system will be reviewed during the fiscal year the changes take place.

FINDING 97-CFC-37: The Cabinet For Families And Children Should Develop Procedures To Ensure Vendors Providing Services To Federal Programs Are Not Debarred Or Suspended By The Federal Government

State Agency: Cabinet for Families and Children

Federal Program: This finding relates to multiple Federal programs.

Federal Agency: This finding relates to multiple Federal agencies.

Pass-Through Agency: Not Applicable

Compliance Area: Procurement, Suspension, and Debarment

Amount of Questioned Costs: None

Federal regulations prohibit using vendors who have been debarred or suspended from providing services to Federal programs. Covered transactions include procurement contracts of \$100,000 or more and all awards to subrecipients. As noted in prior year audits, CFC does not have a system in place that would identify these debarred parties or prevent them from doing business with state-administered Federal programs. Federal moneys could be expended for services provided by a debarred vendor, resulting in unallowable expenditures, which may have to be repaid with state funds.

Federal Executive Order 12549 Section 5 requires that the Federal government compile a list of debarred and suspended vendors. The Common Rule prohibits agencies receiving Federal funds from using these vendors. In addition, OMB Circular A-133 Compliance Supplement requires the agency to ensure that contractors receiving more than \$100,000 and all subrecipients must certify to the agency that the organization is not suspended or debarred.

Recommendation

We recommend CFC develop an internal control system which will do the following:

- Ensure that all contractual agreements with vendors and subrecipients contain the required certification.
- Prevent these vendors from doing business with federally related programs.

Management's Response And Corrective Action Plan

The Cabinet for Families and Children concurs with this finding. The following policies will be implemented:

- *The Management Administrative Reporting System (MARS) to be implemented July 1, 1999 will have the capability of identifying vendors/contractors who have been debarred/suspended.*
- *The Cabinet will address the certification within their contract language for the next state fiscal year.*

FINDING 97-CFC-38: The Department For Social Services Should Improve Its Audit Tracking And Review System

State Agency: Cabinet for Families and Children

Federal Program: CFDA 93.667 – Social Services Block Grant

Federal Agency: U.S. Department of Health and Human Services

Pass-Through Agency: Not Applicable

Compliance Area: Subrecipient Monitoring

Amount of Questioned Costs: None

DSS, as a primary recipient of Federal funds, makes subcontracts or subawards to subrecipients. As the oversight department for various Federal funding sources, including the Social Services Block Grant (SSBG), DSS must ensure subrecipients are complying with applicable Federal regulations governing the funds distributed. These Federal regulations require audit reports and schedules. These reports should include specific types of information and opinions.

- For audits that had been reviewed, an accepted review guide was not used. Program management staff stated that they have studied using an accepted audit review guide and determined using such a guide would be very time consuming. As a result, the performance of other required duties would be neglected or delayed if a review guide were used.
- Of the ten SFY 96 contracts tested for SFY 97, one did not contain the required independent auditor's report. None of the tested contracts had audit reports reviewed. By not receiving and reviewing the audit reports timely, DSS cannot determine the effects of findings and/or questioned costs, nor can they resolve these matters.
- One of the ten contracts tested in SFY 97 did not include the correct CFDA number. Since review of these audits was not performed, no one detected these problems. Failure to establish procedures, which ensure the audits of SSBG contract funds, include correct information may result in funds being unaudited and lessens the assurance that funds were spent in accordance with Federal regulations.

Recommendation

We recommend DSS establish procedures which:

- Review and resolve all audits on a timely basis and in accordance with OMB Circular A-128 for audit reports of fiscal years ending before June 30, 1996, and A-133 for fiscal years ending after that date. An audit review guide should be used to assist in discovering audit deficiencies, such as the use of incorrect CFDA numbers and the omission of contracts on the Schedule of Expenditures of Federal Awards.

FINDING 97-CFC-38: The Department For Social Services Should Improve Its Audit Tracking And Review System (Continued)

Recommendation (Continued)

- Contract with someone, either outside the agency or another agency, to perform the audit reviews. This entity should also be responsible for contacting the subrecipients regarding the submission of the audit reports.
- Perform in-depth reviews of audits, utilizing an accepted review guide and/or obtain from other state agencies documentation that they have performed the review and the audit complies with Federal regulations.
- Develop and implement an audit tracking system to ensure that subrecipient audit reports are submitted and reviewed timely.
- Ensure all contracts are listed correctly in the subrecipient audit reports.

Management's Response and Corrective Action Plan

We agree with the recommendations.

The Cabinet for Families and Children, during its recent reorganization, created the Office of Performance Enhancement. This Office shall be responsible for vendor performance, including conducting monitoring and audit documentation and tracking required under OMB Circular A-133. The Division of Outcome Based Contracts has created a monitoring schedule for all contracts meeting OMB Circular A-133 requirements. The Contracts Accountability Branch shall develop the appropriate Cabinet monitoring teams, assign monitoring tasks, and maintain necessary logs documenting assignments, completions, and reports. The Contracts Management Branch has designated a staff person whose primary function shall be to document receipt of audits required under OMB Circular A-133, enter all required information, including the CFDA number in the tracking system, and track the audit reviews and resolution of differences.

FINDING 97-CFC-39: The Department For Social Services Should Ensure That Monitoring Of Day Treatment And Chapter 1 Programs Is Performed

State Agency: Cabinet for Families and Children

Federal Program: CFDA 93.667 – Social Services Block Grant

Federal Agency: U.S. Department of Health and Human Services

Pass-Through Agency: Not Applicable

Compliance Area: Subrecipient Monitoring

Amount of Questioned Costs: None

As reported in prior audits, we determined that monitoring of SSBG contracts for the Day Treatment and Chapter 1 programs has not been performed since SFY 95. The Systems Administration Branch has performed this monitoring in previous years. This monitoring had included site visits of the subrecipients during which the monitor verified whether the documented number of days of service was at least the number of days that had been contracted for and paid by the Department.

DSS makes subcontracts or subawards to subrecipients. As the oversight department, DSS must ensure subrecipients are complying with applicable Federal regulations governing the funds distributed. Part of this assurance comes from monitoring of the day-to-day activities of subrecipients that are paid on a fixed price basis; that is, the subrecipient is reimbursed a fixed price per day for every day a service is provided. Services contracted for under this basis of reimbursement include Day Treatment and Chapter 1.

Because of the lack of monitoring, DSS failed to review the audit reports submitted for the subrecipients providing the Day Treatment and Chapter 1 services. Review and correction of any deficiencies found in the audit (discussed above), along with reports documenting the results of the monitoring described above, are required for closure of the audit.

Due to the absence of this monitoring effort, DSS was unable to determine whether the number of days of service paid for by CFC equaled the actual number of days a service was provided and whether the subrecipient was in compliance with Federal regulations.

OMB Circular A-133 requires the recipient to determine whether the subrecipient spent Federal assistance funds provided in accordance with applicable laws and regulations. This may be accomplished by reviewing an audit of the subrecipient or performing program reviews. In the case of Day Treatment and Chapter 1 programs, neither of these monitoring functions were being performed.

FINDING 97-CFC-39: The Department For Social Services Should Ensure That Monitoring Of Day Treatment And Chapter 1 Programs Is Performed (Continued)

Recommendation

We recommend DSS establish procedures which:

- Will ensure subrecipients are monitored in a timely manner in order to determine the accuracy of the number of days of service reported and to promote prompt review and closure of the related audit reports.
- Include performing timely, in-depth reviews of audits using an accepted audit review guide to determine whether the audit complies with Federal regulations.
- Contract with someone, either outside the agency or another agency, to perform the audit reviews. This entity should also be responsible for contacting the subrecipients regarding the submission of the audit reports.
- Improve communication between Departments, especially DSS and the Department of Juvenile Justice (DJJ), regarding contracts with someone outside the government performing the monitoring function on contracts previously with DSS but now transferred to DJJ.

Management's Response and Corrective Action Plan

We agree with the recommendations.

The Cabinet for Families and Children, during its recent reorganization, created the Office of Performance Enhancement. This Office shall be responsible for vendor performance, including conducting monitoring and audit documentation and tracking required under OMB Circular A-133. The Division of Outcome Based Contracts has created a monitoring schedule for all contracts meeting OMB Circular A-133 requirements. The Contracts Accountability Branch shall develop the appropriate Cabinet monitoring teams, assign monitoring tasks, and maintain necessary logs documenting assignments, completions, and reports. The Contracts Management Branch has designated a staff person whose primary function shall be to document receipt of audits required under OMB Circular A-133; enter all required information, including the CFDA number in the tracking system; and track the audit reviews and resolution of differences.

FINDING 97-CFC-40: The Division Of Disability Determinations Should Implement A Security Policy

State Agency: Cabinet for Families and Children

Federal Program: CFDA 96.001 – Social Security – Disability Insurance

Federal Agency: U.S. Social Security Administration

Pass-Through Agency: Not Applicable

Compliance Area: Internal Controls

Amount of Questioned Costs: None

The Division of Disability Determinations (Disability) did not develop formal policies and procedures identifying management and user responsibilities concerning their Disability Determination Tracking System (DDS) security. Disability did follow certain procedures to secure system access based on user needs. Additionally, discussions revealed that DDS was in the process of beginning a draft security policy. However, at the time of our audit fieldwork, formal written documentation of user and security administrator responsibilities, policies, and security procedures had not been developed. This finding was noted in the prior audit for fiscal year ended June 30, 1996. This system is instrumental in processing approximately twenty-two million dollars annually in disability determination related payments and involves over four hundred system users.

Failure to document existing policies could lead to a lack of understanding by management and users and result in a failure to comply with security controls in areas such as issuing, deleting, and sharing of user IDs. Failure to comply with security controls could lead to unauthorized data or program modification, destruction of assets, and interruption of services.

For security to be effectively implemented and maintained, written policies and procedures should be developed. This provides the security framework used to educate management and users of their security responsibilities. Further, formalized security policies provide continuity for policy implementation and illustrate management's concern for strong system security.

Recommendation

We recommend that Disability develop detailed written policies to establish standards for system security and procedures to be followed by the security administrator and system users. At a minimum, these security policies should:

- Define the duties and responsibilities of the security administrator.
- Develop formal procedures for notifying the security administrator of terminations or transfers of employees with system access.

FINDING 97-CFC-40: The Division Of Disability Determinations Should Implement A Security Policy

Recommendation (Continued)

- Outline a security awareness program covering training, new hire orientation, and confidentiality statements. Periodic communication of the security policy to all employees should be required. Employees need to be made aware of their responsibility to ensure the proper use and confidentiality of data, user logon IDs, and passwords.
- Define procedures for maintaining adequate physical control over system resources, such as keeping doors locked (if applicable), questioning strangers, and logging off terminals when employees leave the workstation.
- Define general procedures to be followed for conducting inquiries when it appears system security or data confidentiality has been comprised, and define formal actions to be taken against security violators.
- Define access rules to data files and resources, such as procedures for requesting and processing modifications, additions, and deletions to system access.

Management's Response and Corrective Action Plan

The Division is working on a security plan. We anticipate that it will be fully implemented prior to June 30, 1999. However, several of the recommendations listed have already been implemented or are in the process of being implemented.

The management staff has been informed of the need to request access for new users, and request changes in access, through the use of email or some other means that permits record keeping and confirmation. The Division personnel manager will continue to notify the systems staff of employees who leave the Division.

The implementation of the Social Security Network mentioned in the discussion includes training. Part of this training includes security awareness. The staff is already aware of the need for confidentiality as a part of regular program training. As part of the Division's new employee orientation, there is a part regarding systems security, including confidentiality of information, importance of logging off, not sharing passwords, etc.

FINDING 97-CFC-40: The Division Of Disability Determinations Should Implement A Security Policy

Management's Response and Corrective Action Plan (Continued)

Physical security of the buildings and computer operations has been a concern for some time and a number of steps have been taken to limit access and enhance security. The Frankfort building, First City, is a limited access building with entrance through use of a sensor card. There is a combination lock on the computer room. The Louisville office has locks on the 6th and 11th floors and the elevator locks to the fourth floor after business hours. There is no entry from the stairwell. The computer room remains locked, with only 2 keys available. Restricted access entry for the fourth floor is under discussion.

Although completion of formal security policies is in process, the Division maintains control of its access and security.

FINDING 97-CFC-41: The Division Of Disability Determinations Should Improve Logical Access Security Procedures

State Agency: Cabinet for Families and Children

Federal Program: CFDA 96.001 – Social Security – Disability Insurance

Federal Agency: U.S. Social Security Administration

Pass-Through Agency: Not Applicable

Compliance Area: Internal Controls

Amount of Questioned Costs: None

Disability did not use formalized security authorization procedures to establish, modify, or revoke system access to their WANG departmental processor during our SFY 1997 audit period. This processor houses the DDS software and related programs and data files. This issue was noted during the previous audit. Further, our review revealed that four employees and one contractor working within the Systems Operation Section have system access that allows them to serve as systems administrators. This access provides full access to DDS productions programs and data files, the operating system, and sensitive utility programs. Discussions with the supervisor of the Systems Operation Section revealed that account activity for users of the DDS is not tracked unless a problem is suspected. This includes the account activity of users with system administrator level access.

Our review revealed that during our audit period, the system administrators would commonly accept phone calls and e-mail from employee supervisors as a means for requesting employee system access. According to the Systems Operation Section supervisor, there are approximately thirty supervisors that might contact the system administrators to request system access for their employees. Until recently, e-mailed requests were not required or maintained. This procedure requires the system administrators to ensure the identity of the requesting supervisor based upon voice recognition. This places an unnecessary burden on the system administrators, especially for the contract employee who might potentially serve as backup system administrator, and does not provide documentation of the request and subsequent access level granted the employee/user.

The propriety of system access levels granted cannot be ensured without properly documented access requests approved by the employee supervisor and security coordinator. The accountability and audibility of resource access is achieved through documented request and approval procedures. Further, the level of system access granted should be restricted to areas necessary for the employee to perform his/her assigned job duties.

FINDING 97-CFC-41: The Division Of Disability Determinations Should Improve Logical Access Security Procedures (Continued)

Recommendation

Disability should formalize its security access request procedures. This normally involves developing an access request form that is completed and signed by the supervisor of the requesting employee. These forms are reviewed and approved by the security administrator, and retained to support supervisory approval for the access provided the user. Disability could initiate this procedure during their migration to the new server, which they anticipate to occur during the next two years. They are already requesting users to sign security agreements for that reason and could request supervisors to complete access request forms to authorize the current access their employees should have. E-mail could be used from that point to authorize modifications to access, as long as e-mail is retained. We realize DDS has recently instigated the requirement that access requests be supported by e-mail from the requesting supervisor. We recommend that if request forms are not developed and implemented, then, at a minimum, the security administrators should retain e-mail as evidence to support the level of access requests granted. E-mail should be maintained in a manner that is conducive for the purposes of management and audit review.

Further, we recommend that Disability management evaluate the necessity for five system administrators. This level of security provides full access to all programs and files relating to DDS and creates significant exposure. If management feels they need four employees and one contractor to be provided this access, we recommend monitoring activities be performed on backup administrator accounts by the Systems Operation Section supervisor. The security system provides the ability to log activity at various levels, and the supervisor can detect when the log is deactivated.

Management's Response and Corrective Action Plan

This item contains essentially four points:

- 1. Formalize the procedures used to request or revoke system access.*
- 2. Use forms, email, or some means to create a clear audit trail of access changes.*
- 3. Establish a baseline set of accesses approved by each supervisor for each employee.*
- 4. Reduce "exposure" in the area of System Administrators by either dividing access or tracking their activities.*

FINDING 97-CFC-41: The Division Of Disability Determinations Should Improve Logical Access Security Procedures (Continued)

Management's Response and Corrective Action Plan (Continued)

Number one is included in the security policy discussed in the previous item. Number two is a subset of number one and has been implemented. Supervisors are to use email to make system requests and these are being retained. Number three is a very difficult problem only because of the number of the users on the system. This will be a task that will be very time consuming and with a small staff will take some time. The request does have merit and the Division will do it. However, the most difficult item is number four. Given the nature of the WANG operating system, it is very difficult to divide accesses. The security access for users also applies to other tasks involving the files. To be able to delete or rename a file, the user needs to be able to write directly to that file. "Write access" is the same as security administrator access. There is only one level of administration.

One safeguard exists and is built into the applications. The application programs track the users (or administrators) who make the entries, and who make changes to the entries. The tracking occurs in at least two places for several of the key files needing to be accessed to create the data for a payment. An unscrupulous administrator would not only need to be aware of the system tools needed to "cover their tracks," but would also need detailed application knowledge to be aware that the application tracks these entries and where. This system works very well, and its very complexity is also a deterrent.

A second safeguard in the DDS operation affecting payment to a vendor is that payment requires involvement of quite a number of people. Not only are there systems operations, but there is a parallel trail of paper documents. Although someone with administrator access could make the system entries to create an obligation and make a payment, every payment is matched to an actual bill or a payment document that includes a signature. Oversight of the vendors, in particular the high volume high payment vendors, is close, involving schedulers, payers and a professional relations staff. Large or frequent payments involving a number of new vendors (or changed patterns among established vendors) would raise interest in a variety of areas. Although we do not want to discount the importance of system security and oversight, we also do not want to forget that other controls are in place that also focus on the these same areas.

We cannot offer a better plan to track the actions of administrators than to turn on security tracking as suggested. We have done some testing of it and found that it does not require excessive disc space, nor does it appear to require excessive overhead. However, the reports that it produces are so large that it will require selection of the particular items to track. Tracking all items available for one person for one day produced an 80-page log.

FINDING 97-CFC-42: The Division Of Disability Determinations Should Improve Program Modification Procedures

State Agency: Cabinet for Families and Children

Federal Program: CFDA 96.001 – Social Security – Disability Insurance

Federal Agency: U.S. Social Security Administration

Pass-Through Agency: Not Applicable

Compliance Area: Internal Controls

Amount of Questioned Costs: None

As noted in the prior audit period, the Disability has not developed and implemented formalized policies and procedures for control of program modifications.

Disability contracts with an external software vendor to obtain program modifications for DDS. Users informally submit program modification requests to the employees of the Systems Operation Section. The employees of the Systems Operation Section have meetings to discuss the suggested application changes. Once an agreement is reached as to the required program modifications, the request is entered into a log. At this point, a Disability employee contacts the external vendor to request a program modification. Our review revealed that one employee within the Systems Operation Section is primarily responsible for coordinating program modifications with the software vendor. This process consists of the Systems Operation Section employee sending a fax, e-mailing via the Internet, or simply placing a telephone call to the software vendor. Once the request is made, many of the program modifications are received from the software vendor via e-mail over an unsecured Internet connection. The auditor noted a file kept by the Systems Operation Section that contained copies of requests and handwritten notes or check marks on the copies that were used to informally track the requests. The status of the requested program modifications could not easily be determined. Concerning the acceptance of e-mailed program modifications, discussions revealed that all changes are tested prior to placing modified programs into production, regardless of the level of modification. However, this testing is not documented.

Formalized program modification policies and procedures are needed to ensure consistent procedures are followed for authorization and approval of program changes, development of technical and user documentation, library maintenance and control, user training, testing requirements, tracking of requests, transfer of changes into production, and an audit trail of program changes.

Without formalized controls over program modifications, management increases the risk that incorrect or unauthorized changes could be moved into the live environment and adversely affect system processing. Also, without a formal documented system for tracking the program modifications to their completion, it would be difficult for DDS to know the status of requested changes or if they are being billed for services they did not request.

FINDING 97-CFC-42: The Division Of Disability Determinations Should Improve Program Modification Procedures (Continued)

Recommendation

We recommend that Disability management develop and implement formal written program modification control procedures. The procedures should address the following issues:

- Authorization and approval of changes,
- Technical and user documentation,
- Library maintenance and control,
- User training,
- Testing requirements,
- Tracking of requests,
- An audit trail of changes to each program,
- Transfer of changes into production, and
- Virus scanning of program modules received over the Internet.

Management's Response and Corrective Action Plan

The Division is developing more formalized procedures to address these issues. They will include the ability to track clearly the steps from beginning to end for a particular change. We will do more to track testing, loading programs and the particular programs involved in the change,

Program modifications are received from the vendor through email over the Internet. There is no encryption presently running. Use of email for program fixes and changes is an essential feature that improves efficiency over any other means of program exchange. Virus scanning takes place on all email and attachments received at both the server and the workstation level. This has been in place since the initial installation of the Disability test network over a year ago. (It includes scanning of items received both from the Internet and from within the state network.) We will look into encrypting the transmission files.

FINDING 97-CFC-43: The Division Of Disability Determinations Should Ensure All Modifications Are Completed To Allow Processing In The Year 2000

State Agency: Cabinet for Families and Children

Federal Program: CFDA 96.001 – Social Security – Disability Insurance

Federal Agency: U.S. Social Security Administration

Pass-Through Agency: Not Applicable

Compliance Area: Internal Controls

Amount of Questioned Costs: None

Disability has not completed all modifications necessary to DDS processing Year 2000 compliant. The known necessary DDS hardware and major application program changes have been completed. However, several significant third-party utility software packages used by the Systems Operation Section to manage the DDS are not compliant.

These utility components that remain non-compliant depend on outside vendors to supply upgrades or software patches to make the components compliant. Discussions revealed that the Systems Operation Section supervisor intends on purchasing WANG alternatives to replace these utility programs if they have not been made compliant by the vendors in early 1999.

The Year 2000 calculation is a problem associated with applications designed to save space by eliminating the “19” as the century in dates. If the numbers “00,” to represent the year, were input into the system, they may produce incorrect results or become totally dysfunctional since these systems may interpret this input as the year 1900 instead of 2000.

Recommendation

We recommend Disability management take the necessary steps to ensure DDS and applicable utility programs are Year 2000 compliant. We recommend that any necessary modifications or replacements be accomplished no later than July 1, 1999, so that modifications to the system can be properly tested.

Management’s Response and Corrective Action Plan

Since the auditors left the Division, the compliant version of the final third party utility “System Minder” has come onto the market. It has been tested and installed on the main DDS system and needs to be loaded to the other two WANG systems. One of the third party utilities, “Space Saver,” will not have a compliant version. All of the functions that this product was used for, except one, have been migrated to other (compliant) products. The Division is looking for another product that performs this function in the WANG environment.

FINDING 97-CFC-43: The Division Of Disability Determinations Should Ensure All Modifications Are Completed To Allow Processing In The Year 2000 (Continued)

Management's Response and Corrective Action Plan (Continued)

The Division has just received Federal authorization, and has requested a state purchase of a WANG service to do an analysis of all the files on the three WANG VS systems in the Division. This analysis and inventory will identify if there are any suspicious or non-Y2k compliant files now residing on these systems. This might be likened to a final check to determine if there are any old programs or versions that still need updating.

The Division recently worked through Y2k contingency scenarios, including participation by a Division Deputy Director. The objective was to analyze situations where hardware, software, or infrastructure failed, and to determine the response of the Division.

For quite some time, the Division has been specifying on all purchase requests that any electronic hardware, software, or equipment or product using hardware or software be Y2k compliant. The Division anticipates a possible freeze on hardware and software changes during the last quarter of the coming year. Without question, there will be further testing over the course of the coming year. We anticipate all new software will be in place by July 1, 1999.

FINDING 97-CHS-44: The Department For Medicaid Services Should Improve The Controls Over Drug Rebate Billings, Collection, And Recording

State Agency: Cabinet for Health Services

Federal Program: CFDA 93.778 Medical Assistance Program

Federal Agency: U.S. Department of Health and Human Services

Pass-Through Entity: Not Applicable

Compliance Area: Special Tests and Provisions

Amount of Questioned Costs: None

Internal controls over drug rebate billings, collection, and recording within the Medical Assistance Program's (MAP) Drug Rebate Program were not adequate to ensure and document that accounts receivable were handled in accordance with management's assertions. Receivables were recorded by DMS based on billing records maintained by the fiscal agent (Electronic Data Systems and Unisys) and rebate formulas provided by the Health Care Financing Administration (HCFA). During our audit of the Program's billing, collection, and recordkeeping cycles, we noted weaknesses in various areas of the Program. We tested a sample of 40 rebate billings from the billing cycle through the receipt cycle and noted the following:

- a) Ten labeler checks were received by the fiscal agent and not posted in the MMIS in a timely manner. For testing purposes, we considered five working days to be timely.
- b) The fiscal agent did not receive seventeen labeler rebate checks by the date 38 days past the postmark date on the Rebate Billing Statement.
- c) Three drug labelers were not sent a 38-day delinquent payment notice after payment had not been received by the fiscal agent within 38 days of the postmark date on the Rebate Billing Statement.
- d) Sixteen labelers' Labeler Quarter Detail Screens in the MMIS had either a positive or negative "balance" amount for the quarter tested. This indicated a lack of follow-up procedures.

Items a, c, and d above are repeat comments from SFY 1996.

The lack of an effective internal control structure increases the risk that laws and regulations of the Drug Rebate Program will not be followed, leading to the possibility of sanctions by the Federal government, including possible disallowance of expenditures. Furthermore, since a portion of the rebate collected would be used to reimburse the Commonwealth for their match, failure to collect all rebates due results in a loss of state revenue.

FINDING 97-CHS-44: The Department For Medicaid Services Should Improve The Controls Over Drug Rebate Billings, Collection, And Recording (Continued)

Recommendation

We recommend that proper controls be implemented by the fiscal agent or by DMS to ensure that the following objectives are met:

- All labeler checks received should be posted to the MMIS timely.
- DMS should ensure that all checks are received by the due date.
- A delinquent payment notice should be sent to all labelers who have not paid the amount due MAP within 38 days from the date the bill was postmarked. Additionally, DMS should follow-up on late payments after the 38-day notices have been mailed.
- Drug rebate discrepancies between DMS and drug labelers should be resolved in a timely manner (i.e., 60 days).

Management's Response and Corrective Action Plan

- *DMS fiscal agent sometimes receives checks that cannot be immediately posted to the MMIS because the checks are not accompanied by sufficient supporting documentation. The fiscal agent contacts DMS staff for additional information to determine how the checks should be posted. In some instances, the research involved in determining how to post these checks requires several days. We agree that five working days can be considered timely in most instances, and we are working toward that goal, but the realities of tracking transactions often result in longer time periods being required to post checks to the MMIS. We are endeavoring to limit the time between receiving an inquiry from our fiscal agent and providing the necessary information to post all checks.*
- *Drug Labelers should make payment within 38 days of the postmarked date of the rebate billing. A 38-day letter (prepared 38 days from the postmarked date of the Drug Rebate Billing and a 60-day letter [from the billed date]) are mailed to labelers that have not responded in a timely manner.*

FINDING 97-CHS-44: The Department For Medicaid Services Should Improve The Controls Over Drug Rebate Billings, Collection, And Recording (Continued)

Management's Response and Corrective Action Plan (Continued)

- *A Design Change Request was created requesting a 60-day letter be mailed to all labelers that did not respond to the quarterly rebate billing or the 38-day letter. With this Design Change Request, a request was made for a Drug Rebate Notification Log. Each of these procedures has been implemented. A Discrepancy Report Form was prepared for Contract Monitoring to address the discrepancy that three, 38-day notice letters were not mailed during this audit period. The Drug Rebate does not have specific written procedures documenting step-by-step processes taken by DMS staff to resolve disputes between DMS and drug labelers; however, DMS staff is in the process of writing the necessary procedures and they should be completed by the end of FY1999.*
- *The Program is currently contracted with Claim Traq, Inc. for dispute resolution. At the present time, all quarters from the first quarter of 1991 through the fourth quarter of 1996 are being processed. As soon as these quarters are resolved, the current quarters should then be processed for resolution.*

FINDING 97-CHS-45: The Department For Medicaid Services Should Improve Controls Over The Accounts Receivable Function

State Agency: Cabinet for Health Services

Federal Program: CFDA 93.778 Medical Assistance Program

Federal Agency: U.S. Department of Health and Human Services

Pass Through Agency: Not Applicable

Compliance Area: Federal Reporting

Amount of Questioned Costs: None

Internal controls over the accounts receivable reporting function within the DMS were not adequate to ensure proper Federal reporting and record/document retention.

During our testing, we noted the following:

- The HCFA 66-Quarterly Accounts Receivable Summary Report for June 30, 1997 was incorrect. This led to an understatement of \$3,138 in the Medicaid Carryover amount reported on the June 30, 1997 HCFA-64 report.
- DMS also reported \$3,875,833 for overpayments not collected or adjusted, but this could not be verified due to lack of supporting documentation.

While these errors do not result in questioned costs, the lack of an effective internal control structure exists. This increases the risk that laws and regulations regarding record retention will not be followed, leading to the possibility of sanctions by the Federal government, including possible disallowance of expenditures.

Recommendation

We recommend that proper controls be implemented by DMS to ensure that the agency be more diligent in inputting accounts receivable data into MMIS. Furthermore, we recommend that DMS maintain documentation for the period specified by the Secretary and that this documentation is available to the APA upon request.

Management's Response and Corrective Action Plan

Line 2 of HCFA 64 for the quarter ending June 30, 1997, section on Medicaid Overpayments Adjustment, was understated because of a transcription error. That error will be corrected.

In the same section, line 1 reported \$3,875,833.49 for overpayments not collected or adjusted. Adjustments were made to the MMIS report, and the supporting documentation for this amount is available for your review. We regret that we did not supply this documentation to you within your original time frame. We will endeavor to provide more timely responses in the future.

FINDING 97-CHS-46: The Department For Medicaid Services Should Ensure That The State Worker's Compensation Data Exchange Occurs Between The Labor Cabinet And The Department For Medicaid Services

State Agency: Cabinet for Health Services

Federal Program: CFDA 93.778 Medical Assistance Program

Federal Agency: U.S. Department of Health and Human Services

Pass Through Agency: Not Applicable

Compliance Area: Special Tests and Provisions - Third Party Liability

Amount of Questioned Costs: None

The State Worker's Compensation quarterly data exchange between DMS and the Labor Cabinet did not occur during SFY 1997. The data exchanges identify possible third party payment sources.

42 CFR 433.138(d)(4) states, "Except as specified in paragraph (d)(5) of this section, the agency must attempt to secure agreements (to the extent permitted by State law) to provide for obtaining – (i) From State Workers' Compensation or Industrial Accident Commission files, information that identifies Medicaid recipients . . . with employment-related injuries or illnesses." Additionally, Kentucky's Third Party Action Plan states, "The Kentucky Labor Cabinet's Department of Information Systems and the Department of Worker's Claims have entered into an agreement with the DMS to conduct data matches of the Worker's Compensation Accident Report Files against the DMS eligibility files on a quarterly basis."

Recommendation

We recommend that DMS correct the system/data problems that are preventing the Workers' Compensation data exchanges. The data exchanges should be conducted as soon as possible thereafter.

Management's Response and Corrective Action Plan

DMS agrees with the auditors' recommendations that correcting the system/data problems that are preventing the Workers' Compensation data exchanges should be a priority. In that regard, DMS has assigned two staff members to document problems and work with both the Department of Workers' Claims (DWC) and Unisys to resolve this situation.

Many of the problems we have experienced are caused by file layout changes made by the DWC which make it impossible for Unisys to read the tapes. Early this year, DWC changed the layout of its address field from 100 to 190 spaces. When Unisys notified DMS that it could not read the file. DMS staff contacted DWC and verified that DWC had changed its database layout. DMS staff then submitted a design change request (DCR) to Unisys to modify Unisys' system and again download the tapes.

FINDING 97-CHS-46: The Department For Medicaid Services Should Ensure That The State Worker's Compensation Data Exchange Occurs Between The Labor Cabinet And The Department For Medicaid Services (Continued)

Management's Response and Corrective Action Plan (Continued)

In August, DWC again modified its file format from 190 to 196 spaces, which resulted in the same problem with Unisys not being able to read the file until it modified its system. On September 9, 1998, Commissioner Boyd sent a letter to the Secretary of the Labor Cabinet asking for a resolution to the problem of DWC changing file layout without notifying DMS.

DMS believes that the problem is in the process of being corrected. We will continue to monitor the situation for ways to improve communication between DWC, DMS, and Unisys to enable the data match to be made in a timely manner, as required by Federal regulations.

FINDING 97-CHS-47: The Finance And Administration Cabinet And The Cabinet For Health Services Should Develop Procedures To Ensure Vendors Providing Services To Federal Programs Are Not Debarred Or Suspended By The Federal Government

State Agency: Cabinet for Health Services

Federal Program: This finding relates to multiple Federal programs.

Federal Agency: This finding relates to multiple Federal agencies.

Pass Through Entity: Not Applicable

Compliance Area: Procurement, Suspension, and Debarment

Amount of Questioned Costs: None

Federal regulations prohibit using vendors who have been debarred or suspended from providing services to Federal programs. Covered transactions include procurement contracts of \$100,000 or more and all awards to subrecipients. As noted in prior year audits, CHS did not have a system in place that would identify these debarred parties or prevent them from doing business with state administered Federal programs.

CHS previously maintained that obtaining this information was cost prohibitive. Information received from the General Services Administration of the Federal government indicated that this information could be obtained without charge via a phone modem, or the Internet. CHS also maintains this responsibility rests with FAC. However, the agency receiving the Federal funds is responsible for ensuring Federal moneys are spent according to Federal regulations. Regulations stated above require the agency to obtain the certification of all covered vendors and contractors.

Federal Executive Order 12549 Section 5 requires that the Federal government compile a list of debarred and suspended vendors. The Common Rule prohibits agencies receiving Federal funds from using these vendors. In addition, OMB Circular A-133 Compliance Supplement requires the agency to ensure that contractors receiving more than \$100,000 and all subrecipients must certify to the agency that the organization is not suspended or debarred.

Recommendation

We recommend CHS develop an internal control system which will do the following:

- Ensure that all contractual agreements with vendors and subrecipients contains the required certification.
- Prevent these vendors from doing business with federally related programs.

FINDING 97-CHS-47: The Finance And Administration Cabinet And The Cabinet For Health Services Should Develop Procedures To Ensure Vendors Providing Services To Federal Programs Are Not Debarred Or Suspended By The Federal Government (Continued)

Management's Response and Corrective Action Plan

The Cabinet for Health Services concurs with the finding. Our response is as follows.

- 1. The Management Administration and Reporting System to be implemented on July 1, 1999 will have the capability of identifying vendors/contractors who have been debarred/suspended.*
- 2. The Cabinet for Health Services will address the certification within their contract language for the next state fiscal year.*

FINDING 97-CHS-48: The Division Of Substance Abuse Should Adhere To Established Internal Control Procedures

State Agency: Cabinet for Health Services

Federal Program: CFDA 93.959 Block Grants for Prevention and Treatment of Substance Abuse

Federal Agency: U.S. Department of Health and Human Services

Pass Through Agency: Not Applicable

Compliance Area: Subrecipient Monitoring

Amount of Questioned Costs: None

The Division of Substance Abuse did not adhere to established internal control procedures. As a result, we noted the following exceptions within the subrecipient monitoring section of testing internal controls.

When testing internal controls, we reviewed the required quarterly progress reports for 78 projects. However, we found no documentation to support the receipt of 48 such reports or the review of 36 additional reports. OMB Circular A-133 requires state or local governments to determine whether the subrecipient spent funds in accordance with applicable laws and regulations. It is the procedure of the Division of Substance Abuse to review progress reports to meet this requirement. The community mental health centers submit quarterly reports for each of their substance abuse prevention grants. These reports describe activities employed toward attaining the goals and objectives of the program. These reports enable the progress of the centers in reaching the goals to be monitored. The lack of review or receipt may prevent the Division from ensuring that the centers do not stray from prescribed goals and objectives.

Recommendation

We recommend the Division of Substance Abuse re-emphasize procedures to ensure that progress reports are received, reviewed, and followed up in a timely manner. Accurate documentation should be maintained with each report containing evidence of review and acceptance of the report. A separate tracking list stating the date the report was received should be developed.

Management's Response and Corrective Action Plan

The Division of Substance Abuse will initiate a procedure to assure that all grant progress reports will be reviewed and followed-up in a timely manner. A grants manager will log all progress reports upon receipt by the Division. Reports not received within thirty (30) days of the due date will be sent a reminder that reports must be received for purpose of Federal Block Grant compliance. Documentation of notification will be entered in the programs report file and log.

FINDING 97-CHS-49: The Department For Public Health Should Develop A Complete Information System Security Policy

State Agency: Cabinet for Health Services

Federal Program: CFDA 10.557 Women, Infants, and Children

Federal Agency: U.S. Department of Agriculture

Pass Through Entity: Not Applicable

Compliance Area: Internal Controls - Computer Security

Amount of Questioned Costs: None

The Department for Public Health (DPH) did not provide adequate security for the Local Health Network of which the Women, Infants, and Children (WIC) System is a part. The following exceptions were noted:

Initial Request for Access:

- There is no formal request policy in place.
- Informal requests for access are made via the telephone. No formal requests are received from the local health administration, and callback security features are not used.
- Contract employees and volunteers (individuals who are not on the personnel system) can be given access to the Local Health Network without formal confirmation of their employment for a health department.
- We were unable to find requests on file for five of the twenty-two user IDs checked. These included:
 - Two individuals who had left the employ of DPH and returned.
 - One individual who had four different user IDs.

Access Levels:

- The access codes for inquiry and update access were inadvertently switched when the code numbers were changed by Custom Data Processing, Inc. (CDP). This mistake has allowed individuals who were previously authorized only for inquiry access to have update capabilities.

System Settings/Edits:

- User sessions are allowed to be inactive for two hours before automatic logout procedures are initiated.
- Users are not required to change their security administrator assigned password on initial login.
- Unlimited login attempts are allowed. Automatic account lockout features are not used to prevent password guessing attempts.

CDP Reports:

- No violation or attempted unauthorized system access reports are received from CDP for review.

FINDING 97-CHS-49: The Department For Public Health Should Develop A Complete Information System Security Policy (Continued)

User Id/Password Changes:

- Informal requests for changes to passwords are made via the telephone. No callback or other verification procedure is used to ensure that individuals requesting password changes are valid users.

User Validation:

- User IDs are not attached to an individual's name or social security number on the CDP access screen. This lack of identification prevents cross-referencing to the personnel file for valid user edit checks.

DPH's failure to document existing policies could lead to a lack of understanding by management and users, and result in a failure to comply with security policy in areas such as issuing, deleting, and sharing of user IDs. Failure to comply with security policies could lead to interruption of processing or other services, unauthorized data or program modification, and destruction of assets.

In order for proper security measures to be effectively implemented and maintained, written policies and procedures should be developed. These procedures provide the security framework used to educate management and users of their security responsibilities. Formalized security policies provide continuity for policy implementation and illustrate management's concern for strong system security. Furthermore, system security should be administered in such a way as to ensure proper segregation of duties. Employees and other users should be granted the minimum access necessary for the completion of their job duties or responsibilities.

Recommendation

We recommend the DPH implement the following:

Initial Request for Access:

- Develop detailed written policies to establish standards for system security, and procedures to be followed by the security administrator and system users.
- Require formal access requests be sent via mail, e-mail, or fax to ensure the request is properly authorized.
- Require formal documentation of employment for contractors and/or volunteers from local health departments before an individual is given access.
- Consistently follow established access control procedures by retaining documented access authorization for all changes made to system user access.

FINDING 97-CHS-49: The Department For Public Health Should Develop A Complete Information System Security Policy (Continued)

Recommendation (Continued)

Access Levels:

- Verify requests on file to the on-line access screen to ensure that individuals who were only authorized for an inquiry access level have not been granted update access.

System Settings/Edits:

- Change the setting for an individual being logged out of an inactive session to a maximum of 30 minutes.
- Require new users to change their password the first time they log onto the Network, or after they have passwords changed by the security administrator.

CDP Reports:

- Request reports containing violations and attempted unauthorized system access. Proper follow-up procedures should be developed and implemented.

User Id/Password Changes:

- Require formal requests for password changes be sent via mail, e-mail, or fax to ensure that request is properly authorized.

User Validation:

- Perform periodic comparisons between state employee users to the personnel system, and require written verification of employment for contractors and volunteers.

Management's Response and Corrective Action Plan

Due to the Coopers and Lybrand audit, Custom Data Processing (CDP) has put in place a draft security plan. DPH must further review the plan and make modifications, train the users and test the plan prior to implementation.*

*The Auditor of Public Accounts Office contracted with Coopers and Lybrand, LLP, a certified public accounting firm, to conduct an audit of Custom Data Processing, Inc. in SFY 97.

FINDING 97-MilitaryAffairs-50: The Department Of Military Affairs Should Strengthen Procedures For Monitoring Subrecipients

State Agency: Department of Military Affairs

Federal Program: CFDA 83.516 Federal Emergency Management Agency (FEMA) -

Disaster Assistance

Federal Agency: Federal Emergency Management Agency

Pass-Through Entity: Not Applicable

Compliance Area: Subrecipient Monitoring

Amount of Questioned Costs: \$62,500

We noted several significant weaknesses in the Department of Military Affairs' Division of Disaster and Emergency Services' procedures for monitoring subrecipients for the year ended June 30, 1997, which resulted in the agency's noncompliance with certain monitoring requirements of the Single Audit Act, OMB Circular A-133, and the State's Administrative Plan for the Assistance Program.

The Department Of Military Affairs (Military Affairs) was not consistent in identifying subrecipients who received \$25,000 or more in Federal financial assistance and, thus, was required to submit an audit report to the Military Affairs' Disaster and Emergency Services for SFYs 94, 95, 96, and 97. For SFY 94, the agency identified all subrecipients under the Disaster Assistance Program on a separate listing. During SFY 95, the agency only identified those payments made to all subrecipients under the Disaster Assistance Program. For SFY 96, the agency identified on separate listings those amounts passed to subrecipients under all Federal programs and those amounts passed to subrecipients under each Disaster Assistance Program grant. The agency did identify those subrecipients who expended \$300,000 for SFY 97 on a separate listing.

The agency's tracking system for required audit reports did not include the date audit reports were due and the date findings and questioned costs (if any were noted) were resolved by the agency. Therefore, the agency did not take appropriate action when subrecipients submitted reports late or provided evidence that findings or questioned costs were resolved within the six month timeframe.

Audit reports were not being reviewed timely, as the audit reports tested were not received within 13 months after the end of the fiscal year. Necessary corrective action could not have been implemented in a timely manner.

During the review of Quarterly Progress Reports, each subrecipient in a large project is required to provide information on the status of the projects quarterly. For items tested, we noted eight instances where progress reports were not received for SFY 97.

For Disaster F - 1163 Public Assistance, progress reports were not due until the end of September 97 (after audit period.) For items tested, we noted 18 instances where requests for progress reports as of September 10, 1997 had not been made.

FINDING 97-MilitaryAffairs-50: The Department Of Military Affairs Should Strengthen Procedures For Monitoring Subrecipients (Continued)

Because the majority of the money received under CFDA number 83.516 - Disaster Assistance flows through to subrecipients, it is imperative that monitoring of these subrecipients be done to ensure that Federal moneys are expended in accordance with applicable laws and regulations and within the terms of the grant agreements.

Under the requirements of the Single Audit Act, prior to the 1996 Amendment, each state and local government that receives Federal financial assistance and provides \$25,000 or more of such assistance in any fiscal year to a subrecipient is subject to the audit requirements of the Act.

Under the 1996 Amendment, each non-Federal entity that expends a total amount of Federal awards equal to or in excess of, \$300,000, or such other amount in any fiscal year, shall have a single audit or program specific audit, any non-Federal entity that expends any Federal awards under more than one Federal program shall under go a single audit in accordance with the requirement of the act.

The primary recipient should:

- Determine whether state or local subrecipients have met the applicable Federal audit requirements.
- Determine whether the subrecipient has controls in place to ensure that Federal financial assistance is being expended in accordance with applicable laws and regulations.
- Ensure that appropriate corrective action is taken within six months after receipt of a subrecipients auditor's report that identifies the reported instances of noncompliance with Federal laws and regulations.

According to the State's Administrative Plan for the Public Assistance Program:

- The Governor's Authorized Representative (GAR) assures that the grantee and subgrantees perform audits in accordance with the Single Audit Act on a timely basis.
- The GAR reviews audits performed on the grantee and subgrantees by completing the "Uniform Desk Review Guide for Single Audits" or the "Desk Review Guide for Program Audits." If adverse findings affecting disaster payments are reported, the GAR assures that appropriate action is taken and reports that action to FEMA.

FINDING 97-MilitaryAffairs-50: The Department Of Military Affairs Should Strengthen Procedures For Monitoring Subrecipients (Continued)

Military Affairs did not adhere to the monitoring procedures as outlined in the State Administrative Plan for the Public Assistance Program. There were two instances where no "Summary of Documentation of Expenditures" were on file for large projects which had been completed. Also, progress reports for large projects was not received quarterly from the subrecipients.

Additionally, Military Affairs did not have adequate procedures in effect to track and document the completion dates for projects to ensure that all projects were completed within set time limits in accordance with applicable laws and regulations. For instance, none of the 38 projects selected for Disaster 1163 Public Assistance contained sufficient documentation on file to determine that specific projects had been completed within applicable time limits.

Recommendation

We recommend Military Affairs implement the following procedures to strengthen its controls over the monitoring of subrecipients to ensure all applicable audit requirements are met, corrective action is taken when necessary, and reviews of audit reports and progress reports are performed timely and properly documented:

- Develop and maintain an agency-wide control listing which identifies Federal moneys passed through to subrecipients during the fiscal year under each Federal program in order to determine which subrecipients require an audit and/or submission of progress reports. This listing should include the Federal program names, CFDA numbers, and amounts.
- Modify the audit and progress report tracking system to include the date reports are due, the date reports are received, and the documentation of correspondence relating to findings and questioned costs. The system should ensure all subrecipients required to submit an audit and/or progress reports are included on a tracking list.
- Review all subrecipient audit reports in accordance with either the "Desk Review Guide for Single Audit Reports" or the "Desk Review Guide for Program Audits" and maintain documentation of such reviews.
- Take action to review all subrecipient audit reports and progress reports in a timely manner.

FINDING 97-MilitaryAffairs-50: The Department Of Military Affairs Should Strengthen Procedures For Monitoring Subrecipients (Continued)

Management's Response and Corrective Action Plan

The Department of Military Affairs has/or will implement procedures to strengthen control over the monitoring of subrecipients to ensure all applicable audits and progress report requirements are met.

FINDING 97-TC-51: The Transportation Cabinet Should Ensure The Federal Government Receives Its Share Of Proceeds When Real Estate Purchased With Federal Funding Is Sold

State Agency: Transportation Cabinet

Federal Program: CFDA 20.205-Highway Planning and Construction

Federal Agency: U.S. Department of Transportation

Pass-Through Entity: Not applicable

Compliance Area: Equipment and Real Property Management

Amount of Questioned Costs: \$19,765

Procedures are not in place to effectively ensure that the Federal government receives its share of the proceeds from the sale of a real estate parcel in a closed project when the Federal government assisted in the original purchase of the parcel.

When federal-aid projects are closed, it is not possible to credit that Federal project for its share of the proceeds from sales of property bought for that project. Rather, another project of the same general type that is open should receive a credit for the Federal share. The Federal share of the sales proceeds is generally the same rate at which the Federal government “participated” in the acquisition cost for the property when originally purchased for the project.

When a parcel with Federal participation in the acquisition cost is sold in a closed project, a memo is sent from the Real Property Division to the Right of Way Division informing them that the parcel has been sold and is “participating.” Form TC 31-207--Miscellaneous Sales Listing--is then prepared in the Right of Way Division and sent to the Transportation Cabinet’s Division of Accounts with the check(s) for the purchase of the parcel.

When the Miscellaneous Sales Listing is sent to the Federal Billing Section, an employee is to assign an open Federal project to receive the Federal share of sales proceeds. This was not done, however, and all of the sales proceeds on the parcels in closed projects were deposited into the Road Fund with no Federal credit.

Thirty real estate transactions were sampled. We identified five sales of parcels on closed projects for the state fiscal year. Of these five, it was noted that three of the transactions involved improper treatment of Federal credit resulting in a total of \$19,765 not credited to Federal billing.

As of June 9, 1998, TEA-21 Section 1303 changes 23 USC 156 to exempt states from any sharing of proceeds with the Federal government for any real property sale in process during or after that date. There are no retroactive provisions on this change.

FINDING 97-TC-51: The Transportation Cabinet Should Ensure The Federal Government Receives Its Share Of Proceeds When Real Estate Purchased With Federal Funding Is Sold (Continued)

The Federal government was not being properly credited for its share of the proceeds from real property sales of land parcels in closed projects. Rather, the state received 100% of the funds into its own Road Fund. Failure to comply with requirements could result in loss of federal-aid project funds.

Recommendation

The Federal Billing Section should assign a knowledgeable individual to review the Miscellaneous Sales Listings for sales of parcels in closed projects and provide correct instructions to the Transportation Cabinet's Division of Accounts as to which open Federal project should be given the credit. The Federal share of \$19,765 identified in the audit as not being properly credited to the Federal government should be transferred from the Road Fund to Fund 12 (Federal) for proper credit to the Federal government.

All parcel sales in closed Federal projects made after departure of employee who determined the Federal credits should be reviewed to ensure that Fund 12 is credited for the Federal share of the sales proceeds.

Management's Response and Corrective Action Plan

Regarding the weakness of not properly giving credit to the Federal Highway Administration (FHWA) for the sale of excess property, the Transportation Cabinet basically agrees with the finding. However, the agency wishes to point out that, at the time, the FHWA had announced a pending change in policy that it would no longer require credit on the sale of excess property, effective June 9, 1998. Given this pending change, the Transportation Cabinet's handling of credits was not given the highest priority during the audit period.

FINDING 97-TC-52: The Transportation Cabinet Should Deposit Sale Proceeds Timely

State Agency: Transportation Cabinet

Federal Program: CFDA 20.205-Highway Planning and Construction

Federal Agency: U.S. Department of Transportation

Pass-Through Entity: Not Applicable

Compliance Area: Equipment and Real Property Management

Amount of Questioned Costs: None

Thirty transactions were tested in the Disposition of Real Property. There were 26 transactions that involved the deposits of sales proceeds. None of the 26 transactions had proceeds deposited within 30 days or less. The length of time between the check being sent from Real Property Division to Right of Way Division and the check being deposited on the Pay-In Voucher ranged from 35 days to 373 days, with the average length being about 107 days. This resulted in 9 sales being reported in the wrong fiscal year. There were instances of checks not being honored for deposit because they were staledated, requiring the Transportation Cabinet to contact the parcel purchasers for replacement of these checks.

The Transportation Cabinet failed to accrue interest on the sales proceeds during the time period when the checks were not deposited. The Federal Highway Administration did not receive its share of sales proceeds in a timely manner. Such a delay in depositing proceeds can result in reporting misstatements and increases the risk of sales proceeds being lost or mishandled. The problem originates within the Right of Way Division. As was noted in the prior year audit comment. Therefore, last year's comment on untimely deposits of proceeds from the disposition of real property is being repeated this year. Last year's comment was not made in time to effect changes from the transactions in the current year.

As of June 9, 1998, TEA 21 Section 1303 changes 23 USC 156 to exempt states from any sharing of proceeds with the Federal government for any real property sale in process during or after that date. There are no retroactive provisions on these changes.

Recommendation

The Real Property Division, Right of Way Division and Division of Accounts should strive to reduce the handling time on checks received for sale of real property parcels. Even if each Division has the check for only two weeks, the check is six weeks old before being deposited.

FINDING 97-TC-52: The Transportation Cabinet Should Deposit Sale Proceeds Timely (Continued)

Recommendation (Continued)

A Special Deposit Trust Fund (Fund 72) has now been established to accept the deposit of sales proceeds from the sale of surplus/excess real property. Checks are to be promptly forwarded for deposit to this account, if the proper accounts cannot be credited immediately. The Right of Way Division then investigates the original purchase of that property by the Transportation Cabinet to determine if there was Federal participation in the cost. When it has been determined what, if any, proceeds the Federal government is due, Accounts is notified and they prepare a journal voucher to transfer the proceeds into Fund 11 (Road) and Fund 12 (Federal). This process should be monitored to ensure that it is working as intended.

This system does not ensure that the Federal government will receive its share any quicker. The Right of Way Division should evaluate how it could more rapidly determine Federal participation in parcel purchases so that Accounts could move funds more expeditiously to the proper accounts.

Since TEA-21 Section 1303 is effective for sales in process by June 9, 1998 or later, there may be fewer sales in the next audit year that will have Federal sharing of sales proceeds and then none in fiscal year ended June 30, 1999. This should eliminate the use of the Special Deposit Trust Fund in future years as all sales proceeds can then be deposited into the Road Fund.

Management's Response and Corrective Action Plan

Findings are correct. As noted, a Special Deposit Trust Fund Account has been established to allow prompt deposit of checks by the Division on Real Property.

FINDING 97-WFDC-53: The Cabinet For Workforce Development Should Ensure The Job Training Partnership Act (JTPA) Complies With Earmarking Requirements

State Agency: Workforce Development Cabinet

Federal Program: CFDA 17.246 JTPA Title III (Dislocated Workers)

Federal Agency: U.S. Department of Labor

Pass-Through Entity: Office of Training and Reemployment, Workforce Development Cabinet

Compliance Area: Earmarking

Amount of Questioned Cost: \$42,039

We reviewed the classification of salary expenditures for the JTPA Title III grant, which has a three-year grant period. The grant period reviewed began on July 1, 1995, and ended on June 30, 1997. As a result of the three-year grant period, there are always three grants running concurrently. During our review, we determined that hours coded by various Department for Employment Services (DES) central office employees should be classified in the Administration cost category, and were improperly charged to the Retraining, Basic Readjustment and Needs Related/Supportive Services cost categories.

The auditor determined that, during SFY 1995, approximately \$61,568 in salary charges were misclassified for the Title III grant. We question \$42,039 of this amount, which indicates the extent to which seven substate grantees (SSGs) exceeded their Administration earmarking requirement upon reclassification of the costs.

Grants for SFY 96 and SFY 97 also opened during this three-year period; therefore, expenditures for these grants were also examined. We determined additional salary misclassifications occurred. We calculated misclassified costs of \$66,731 for the JTPA Title III 1996 grant during SFY 96 and \$50,130 for the 1997 grant during SFY 1997.

However, we did not determine any questioned costs associated with these misclassifications as the grant periods had not yet expired for grant years 1996 and 1997. The SSGs have the full grant period in which to comply with earmarking requirements.

20 CFR 631.14 (c) states, "Of the funds allocated to the Governor, or allocated to any substate grantee, under Part A of Title III for any program year, not more than 15 percent may be expended to cover the administrative cost of programs."

20 CFR 631.13 (f)(1) states "Administration shall include the costs incurred by recipients and subrecipients in the administration of programs under Title III of the Act, and shall be that portion of necessary and allowable costs which is not directly related to the provision of services and otherwise allocable to the cost categories in paragraphs (b) through (e) of this section. The description of administrative costs in subpart D of part 627 of this chapter shall be used by States and substate grantees as guidance in charging administration costs to Title III programs."

FINDING 97-WFDC-53: The Cabinet For Workforce Development Should Ensure The Job Training Partnership Act (JTPA) Complies With Earmarking Requirements (Continued)

20 CFR 627.440 (d)(5) states administrative costs are “costs of salaries, wages, and related costs of the recipient’s or subrecipient’s staff engaged in: (A) overall program management, program coordination, and general administration functions, including the salaries and related costs of the executive director, JTPA director, project director, personnel officer, fiscal officer/bookkeeper, purchasing officer, (etc); (B) preparing program plans, budgets, projects, schedules and amendments thereto; (C) monitoring programs, projects, subrecipients, and related systems and processes; (D) procurement activities, including the award of specific subgrants, contracts and purchase orders; ... (F) developing systems and procedures, including management information systems, for assuring compliance with program requirements; (G) preparing reports and other documents related to the program requirements; (H) coordinating the resolution of audit findings; ... (I) performing such administrative services as general legal services, accounting services, audit services, etc.”

Recommendation

We recommend the DES comply with the JTPA, the applicable regulations, and the JTPA Financial Management Guide by properly classifying salary charges. Also, we recommend that the agency resolve all questioned costs arising from this finding with their grantor agency Office of Training and Reemployment (OTR) WFDC and the U.S. Department of Labor.

Management’s Response and Corrective Action Plan

Department for Employment Services

Division of Administration and Financial Management

CFDA: 17.246 JTPA Title III - Economic Dislocation and Worker Adjustment Act

Nature of Noncompliance:

The auditor reviewed the classification of salary expenditures for the JTPA Title III grants still within their funding periods during the SFY96-97 year. This includes the 0250-95, 0250-96 and the 0250-97 grants. The auditor determined that time charges were misclassified by the Department for Employment Services (DES) central office employees that charged time to the Retraining, Basic Readjustment, and Supportive Services categories. The auditor determined that all hours coded by these central office employees should be classified in the administration cost category.

FINDING 97-WFDC-53: The Cabinet For Workforce Development Should Ensure The Job Training Partnership Act (JTPA) Complies With Earmarking Requirements (Continued)

Management's Response and Corrective Action Plan (Continued)

Response to Noncompliance Issue:

The DES has extensively documented, and provided to the auditor, the rationale and the supporting passages of the JTPA law, regulations, and the clarifying language of the Financial Management Technical Assistance Guide (the TAG) utilized in determining that certain central office activity was of direct benefit to non-administration cost categories. Insofar as DES thoroughly researched the applicable law and regulation prior to employing the time charging practices in question, we continue to believe that the DES interpretation on this matter is within the intent of the rules. Due to the interpretive nature of this issue and in the interest of a timely resolution of this matter, DES does not wish to further debate the compliance issues at this time.

DES responds by proposing the specific journal voucher entries necessary to reclassify to administration the amounts detailed by the auditor as misclassified or questioned. In so doing, DES disagrees with the auditor's detailed schedule which shows the PY94 misclassifications. Most of the PY94 misclassifications also became questioned costs if the full 15% of administration on the SSGs 60% allocation had already been accessed. The PY95 and PY96 misclassifications would also largely then become questioned costs in the subsequent 2 years, or when the funding periods for the grants had lapsed. DES contends that the auditor did not consider all allowable administration available to the Substate Grantees (SSGs) when computing questioned costs determined by the amount of unused administration for the PY94, or the 0250-95, grant allocations. Though misclassified amounts for PY95 and PY96 were not yet shown as questioned costs in the SFY 96-97 audit, the determination of the proper allowable administration available to the SSGs for these years is also necessary to initiate the reclassifying journal voucher entries in resolution of the Record of Noncompliance.

Response Details and Supporting Documentation:

The proposed adjusting entries were computed on the "Administration Cost Category Compliance Worksheet" (provided to the auditor) for each PY addressed in the audit. Step 1 of these worksheets shows that the allowable administration is computed for each SSG by taking 15% of the total administration base which includes both the 60% allocation as well as the discretionary allocation of Governor's Reserve, or 40%, funds expended.

FINDING 97-WFDC-53: The Cabinet For Workforce Development Should Ensure The Job Training Partnership Act (JTPA) Complies With Earmarking Requirements (Continued)

Management's Response and Corrective Action Plan (Continued)

Step 2 computes the total administration cost for each SSG and PY by combining current charges to date plus the additional administration charges occurring as a result of the reclassification entries. Step 3 then compares the total allowable administration from Step 1 to the total adjusted administration charges of Step 2 to determine if there was still any resultant over-expenditure of administration that must remain as, or potentially become, a questioned cost.

The criteria for the inclusion of 40% funds in the administration base is found in the Title III State Plan for the relevant PYs, the JTPA Act, and the regulations found at 20 CFR Part 626, et al. and in the clarifying language of the JTPA Financial Management Technical Assistance Guide (the TAG). Allowable uses of the Governor's Reserve funds are detailed at Sec. 302 (c) of the Act which states as follows:

- (1) The Governor may reserve not more than 40 percent of the amount allotted to the State under section 302(a)(1) for
 - (A) State administration, technical assistance, and coordination of the programs authorized under this title;*
 - (B) statewide, regional, or industry wide projects;*
 - (C) rapid response activities as described in section 314(b);*
 - (D) establishment of coordination between the unemployment compensation system and the worker adjustment program system; and*
 - (E) discretionary allocation for basic readjustment and retraining services to provide additional assistance to areas that experience substantial increases in the number of dislocated workers, to be expended in accordance with the substate plan or modification thereof.**

The allowable Governor's Reserve activities detailed in the above section of the Act includes three activities that could possibly engage the SSGs in the provision of services with these funds. It must be determined which paragraph of Sec. 302(c)(1) authorizes the distribution of the 40% funds in question. The rapid response activity of Sec. 302 (c)(1)(C) is a very distinct activity and is clearly not the fund usage discussed in this response. The other possible authorizing sections which describe the 40% fund distribution to the SSGs are Sec. 302 (c)(1)(B) or "statewide, regional, or industry wide projects;" or Sec. 302 (c)(1)(E) which describes discretionary allocations to SSGs.

FINDING 97-WFDC-53: The Cabinet For Workforce Development Should Ensure The Job Training Partnership Act (JTPA) Complies With Earmarking Requirements (Continued)

Management's Response and Corrective Action Plan (Continued)

There is very little in the Act or regulations which illuminate the activities under Sec. 302 (c)(1)(B). The TAG provides some guidance when it says in Chapter 16, page 20 that "Statewide, regional, and industry wide projects remain under the Governor's direct control ...", on page 26 which states that these projects are not well defined in the Act or regulations so that "In the State plan, the Governor is asked to submit his or her own definitions" and then on page 27 where it states that "In making statewide, regional, or industry wide grants from the Governor's Reserve, States must ensure that procurement rules are followed." If these distributions could be considered projects under contract, then they would be subject to the additional rules at 20 CFR 627.422 (k) which states that "...for all services provided to participants through contracts, grants, or other agreements with a service provider, such contract, grant, or agreement shall include appropriate amounts necessary for administration..." The 40% funds distributed to the SSGs were not granted by way of procured contracts nor are these funds under the direct control of the Governor. Excerpts from the State Plans (provided to the auditor) for the relevant years do not describe or define such an unprocured distribution as a project under Sec. 302 (c)(1)(B). In fact, the FY 98-99 plan language, though outside the scope of the timeframes of the audit period, does refer back to time periods relevant to this response when it states in the past tense that "The Commonwealth of Kentucky has not had statewide, regional, or industry wide activities funded with Governor's Reserve funds because substantial layoffs have depleted SSG funds and the Governor's Reserve funds were used to provide additional financial resources to SSGs..."

The State Plans do state, however, in the section titled Discretionary Allocations that "Another funding avenue for SSGs needing additional funds would be a request to OTR to access retraining and support dollars of the Governor's Reserve funds." The distributions of 40% funds to the SSGs then can only be the discretionary allocations described in the plans and as authorized under Sec. 302 (c)(1)(E) of the Act.

When determining the allowable administration for SSGs and for the Governor's Reserve, the regulations at 20 CFR 631.14 (c) state that "Of the funds allocated to the Governor, or allocated to any substate grantee, under part A of Title III for any program year, not more than 15 percent may be expended to cover the administrative cost of programs." The regulations go on to say at 631.14 (e) that "Funds allocated (or distributed) to substate areas under the provisions of section 302 (c)(1)(E) of the Act shall be considered funds allocated to a substate grantee for the program year of the funds initial allotment to the State, and included in the cost limitations in paragraphs (a), (b), and (c) of this section."

FINDING 97-WFDC-53: The Cabinet For Workforce Development Should Ensure The Job Training Partnership Act (JTPA) Complies With Earmarking Requirements (Continued)

Management's Response and Corrective Action Plan (Continued)

The base for the computations for cost limitations for the Governor's Reserve funds are then addressed at 630.14 (f) that states: "Funds reserved by the Governor under the provisions of Section 302(c)(1) of the Act, other than funds distributed to substate grantees under the provisions of JTPA section 302(c)(1)(E), shall be considered funds allocated to the Governor for the program year of the funds' initial allotment to the State and included in the cost limitations applicable to the Governor."

The base costs for the computation of allowable administration should reflect both the 60% and the 40% allocations made to the SSGs as shown on the Attachments to this response. DES took immediate exception with OTR when the funds were initially distributed in regards to the accounting and tracking requirements imposed and on the stated restrictions on the charging of administration by the SSGs. DES accepted these funds under continued protest in order to not turn eligible participants away from the program due to lack of funds. The questioned costs resulting from the stated misclassifications makes it necessary for DES to now officially address with an outside entity the issues that DES has protested with OTR to no avail. The adjusting entries proposed at this time will not be submitted until this response is accepted as satisfactory.

Auditor's Response

After review of the response, we determined no facts that would change our finding or recommendation. Based upon our review of the regulations and grantor policy, the recalculations submitted are not valid. OTR, the grantor agency, does not attach administration dollars to allotments of 40% Governor's Reserve Funds. Since the agency recalculation depends on the allowance of administration dollars attached to the Governor's Reserve Fund distributed to the agency, the schedule is not valid.

Material Weaknesses Relating to Internal Controls and/or Compliance:

FINDING 97-CHS-54: The Department For Medicaid Services Should Develop Controls To Monitor The Third Party Liability Function Performed By The Fiscal Agent

State Agency: Cabinet For Health Services

Federal Program: CFDA 93.778 Medical Assistance Program

Federal Agency: U.S. Department of Health and Human Services

Pass Through Agency: Not Applicable

Compliance Area: Special Tests and Provisions - Third Party Liability

Amount of Questioned Costs: None

DMS did not have adequate procedures to ensure third party liability information was obtained, reviewed, and input properly into MMIS. During our testing of the third party liability function, we noted the following control weaknesses in SFY 1997:

- DMS did not monitor the activity performed by the fiscal agent's third party liability (TPL) section as those activities relate to TPL questionnaires. Unisys, the fiscal agent, did not follow-up with additional questionnaires if there was no response received from the first questionnaire.
- DMS did not monitor TPL determinations made by Unisys. The determinations were based upon information contained in TPL questionnaires returned by respondents.
- Unisys received data from various sources (DSI, Child Support, SSA) documenting third party coverage of Medicaid recipients. Unisys input TPL data received on these forms into the MMIS. DMS did not monitor this function to ensure proper input.

Without an effective TPL system, excess payments may be made to Medicaid providers. Without proper monitoring of contracted services, specified activities could be overlooked resulting in Federal noncompliance.

42 CFR 433.135-154 requires a system that takes reasonable measures to identify medical services that are the legal obligation of liable third parties, such as private health

FINDING 97-CHS-54: The Department For Medicaid Services Should Develop Controls To Monitor The Third Party Liability Function Performed By The Fiscal Agent (Continued)

or accident insurers, and exhaust such third party resources before paying related claims or seeks reimbursement from the third parties where the liability is established after the claim is paid.

Recommendation

We recommend that DMS monitor contracted services to ensure proper performance. Specifically, we recommend:

- DMS implement procedures for tracking whether or not the fiscal agent is following-up on “no reply” third party liability questionnaires.
- DMS test a sample of returned third party liability questionnaires on a quarterly basis to ensure third party liability data is entered in the MMIS when indicated.
- DMS test a sample of third party liability documentation forms (i.e., PA-40, SSA-8012-U2, and CS-40) on a quarterly basis to ensure the data is properly input into the MMIS.

These control weaknesses were also noted during our SFY 1996 audit.

Management’s Response and Corrective Action Plan

DMS agrees with the auditor’s recommendations that (A) DMS should implement procedures for tracking whether the fiscal agent is following up on “no reply” third party liability questionnaires, (B) DMS should test a sample of returned third party liability questionnaires to ensure that third party liability information is entered in the MMIS when indicated, and (C) DMS should test a sample of third party liability documentation form to ensure the information is properly input into the MMIS. To implement these recommendations, DMS has done the following:

- *A design change request was implemented to ensure that follow-up questionnaires are generated 30 days after the initial questionnaire if no reply was received. The design change request was initiated on May 5, 1997, went through numerous revisions, and was implemented on August 24, 1998.*
- *A DMS employee in the Receivables/Payables Section has begun monitoring samples of returned questionnaires received by Unisys in January 1998. Samples will be monitored from each month’s questionnaires.*

FINDING 97-CHS-54: The Department For Medicaid Services Should Develop Controls To Monitor The Third Party Liability Function Performed By The Fiscal Agent (Continued)

Management's Response and Corrective Action Plan (Continued)

- *A DMS employee in the Receivables/Payables Section has begun monitoring Samples of PA-40s, SSA-8019s, and CS-40s received by Unisys in*
- *January1998. Samples will be monitored from documents received each month.*

FINDING 97-CHS-55: The Department For Medicaid Services Should Establish Procedures To Ensure That Pharmacy Provider Information Is Accurate And Current In The Medicaid Management Information System

State Agency: Cabinet for Health Services

Federal Program: CFDA 93.778 Medical Assistance Program

Federal Agency: U.S. Department of Health and Human Services

Pass Through Agency: Not Applicable

Compliance Area: Allowable Costs

Amount of Questioned Costs: \$184, 633

DMS did not have a system of controls in place to ensure that all pharmacy provider data in the MMIS was accurate. Furthermore, even though pharmacy provider agreements require a provider to notify DMS of a change in operational status, DMS had no system in place to confirm that the provider's information was accurate, current, or complete. Without proper controls to ensure all pharmacy providers are licensed, payments could be made to ineligible providers.

According to DMS personnel, it was the agency's unwritten policy to end date all in-state pharmacies "99999999" in the MMIS unless DMS had been voluntarily notified by the provider of a change in operating status. After notification of a status change, the following would occur:

- *Change in name only* – provider name was updated in the MMIS.
- *Change in ownership* – new provider number was issued and the old provider number was end dated in the MMIS, if the pharmacy had received a new tax identification number; otherwise, no change was made.
- *Closed* – provider number was end dated in the MMIS.

Since there was no system to ensure accuracy of in-state pharmacy data, we obtained third party information from the Kentucky Board of Pharmacy to cross-match to provider information in the MMIS. We compared termination dates (effective dates) obtained from the Kentucky Board of Pharmacy to end dates in the MMIS for twenty-four pharmacies. Our test indicated the following:

- Thirteen pharmacies did not have their end dates updated in the MMIS when the pharmacies closed or the end date was after the Kentucky Board of Pharmacy end date. Twelve of the thirteen pharmacies were listed as active pharmacies in the MMIS.

FINDING 97-CHS-55: The Department For Medicaid Services Should Establish Procedures To Ensure That Pharmacy Provider Information Is Accurate And Current In The Medicaid Management Information System (Continued)

- DMS paid claims during our audit period on two of the thirteen closed pharmacies where the date of service of the claim was after the date the pharmacy's permit had expired. Additionally, claims were paid on two pharmacies during SFY 1997 that we determined had closed during our SFY 1996 audit. The date of service of these paid claims was also after the Kentucky Board of Pharmacy end date. We questioned the Federal share of these paid claims. The total questioned cost was \$184,633.
- DMS did not have written procedures that explained when pharmacy information in the MMIS was required to be updated.
- Pharmacy permit numbers were not recorded in the MMIS for all pharmacies, which hampered the cross-referencing process.

Public officials and others entrusted with public resources are responsible for establishing and maintaining effective controls to ensure that resources are safeguarded and reliable data are obtained, maintained, and fairly disclosed.

DMS' Pharmacy Manual, page 3.1, states that "Any pharmacy holding an operation permit from the Board of Pharmacy in the state in which the pharmacy is located may participate in the Kentucky Medicaid Program." 907 Kentucky Administrative Regulation (KAR) 1:672 Section 3(4) states, "The provider shall file an amended, signed ownership and disclosure form with the department within thirty-five (35) days from the change in the following: (a) Ownership or control; (b) The managing employee or management company; or (c) A provider's Federal tax identification number." Section 3(5) further states, "Failure to comply with the requirements may result in termination from the Medicaid Program." Additionally, 42 CFR 455.104(d) states, "FFP is not available in payments made to a provider or fiscal agent that fails to disclose ownership or control information as required by this section."

The control weaknesses noted herein were also noted during the SFY 1996 audit. The corrective actions described by the agency in response to the 1996 comment have yet to be implemented.

FINDING 97-CHS-55: The Department For Medicaid Services Should Establish Procedures To Ensure That Pharmacy Provider Information Is Accurate And Current In The Medicaid Management Information System (Continued)

Recommendation

We recommend the following:

- DMS should institute controls for ensuring that pharmacy licensure, ownership, and control information has been properly disclosed and subsequently updated in the MMIS, where appropriate. Obtaining information from the Kentucky Board of Pharmacy may be useful in helping to verify current pharmacy operational and licensure status.
- DMS should develop written procedures that document DMS' policies regarding responsibility and timeliness of updating pharmacy provider information in the MMIS.
- DMS should record all pharmacy license numbers in the MMIS in order to properly cross-reference pharmacy data.

Management's Response and Corrective Action Plan

It had been my understanding that the concerns outlined in the SFY 1997 Single Audit (Phase II) had been dealt with appropriately. Since this was not the case, the following steps are being taken to comply with the recommendations:

- *At the time of annual renewal, the pharmacies registered with Medicaid will be required to submit a copy of their pharmacy permit, along with a disclosure of ownership form (MAP-343B). The forms for this year will be mailed by Unisys 60 days prior to the end of the current end date on our pharmacy provider file. When the renewal forms are returned to DMS, the pharmacy permit number will be entered into MMIS. The expected completion date will be January 1, 1999.*
- *We will no longer be using the 99999999-end date on MMIS. We will enter in MMIS, the date the pharmacy permit expires as the end date (there is a 60-day grace period).*
- *Michael Mone', the Executive Director of the Kentucky Board of Pharmacy, has been contacted about sending a quarterly update on all pharmacy closures.*

FINDING 97-CHS-56: The Department For Public Health Should Ensure All Modifications Are Completed To Allow Processing In The Year 2000

State Agency: Cabinet For Health Services

Federal Program: CFDA 10.557 Women, Infants, and Children Program

Federal Agency: U.S. Department of Agriculture

Pass-Through Entity: Not Applicable

Compliance Area: Internal Controls - General Controls–Year 2000 System Compatibility

Amount of Questioned Costs: None

DPH did not complete modifications necessary to ensure Year 2000 compliant processing for the Women, Infants, and Children (WIC) program residing on the mainframe at the DIS. DIS was contracted to ensure that their portion of the WIC system was compliant with Year 2000 processing requirements.

The Year 2000 calculation is a problem associated with applications originally designed to save space by eliminating the “19” as the century in dates. If the numbers “00,” to represent the year, are input into the system, they may produce incorrect results or become totally dysfunctional since these systems may interpret this input as the year 1900 instead of the year 2000.

In order for accurate system processing to continue, it is crucial that all systems are evaluated and necessary changes made before the date field causes systems to fail or produce inaccurate results. Modifications should be completed in sufficient time to allow testing to identify potential errors.

Recommendation

We recommend the DPH management take the necessary steps to ensure the WIC program residing at DIS is Year 2000 compliant. We recommend that any necessary modifications or replacements be accomplished no later than July 1, 1999, so that modifications to the system can be properly tested.

Management’s Response and Corrective Action Plan

Since the completion of your audit, the WIC system residing at DIS has been made Year 2000 compliant. DPH plans to further verify the compliance by testing from an outside contractor. Additionally, the WIC Program State Plan addresses alternate procedures if there is a problem with system Year 2000 compliance.

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**COMMONWEALTH OF KENTUCKY
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 1997**

Prior Year Material Weaknesses Relating to Federal Programs:

PRIOR YEAR FINDING 2: The Department For Medicaid Services Should Develop Controls To Monitor The Third-Party Liability Function Performed By The Fiscal Agent

Corrective action has been taken. See agency's response from FY96 SSWAK pg. 218 [reprinted below].

In order to monitor the activity performed by the fiscal agent's third-party liability (TPL) section and ensure Unisys is providing follow-up with additional questionnaires on TPL and data from other sources (Department for Social Insurance, Child Support, Social Security Administration) documenting third-party coverage of Medicaid recipients, we have developed the following corrective action plan: A member of the TPL staff will regularly visit Unisys to pull a random sample of all TPL source documents, questionnaires and all pertinent paper and tape documentation. Staff will trace the process which Unisys has employed to ensure all appropriate follow-up activity has been initiated and action taken. Staff will document all cases reviewed and note any discrepancies found. Staff will investigate any discrepancies and all follow-up corrections. All materials reviewed will be available in files for auditors' review.

Contact was made with Unisys as soon as this error was discovered. It was found that on January 13, 1996, TPL staff added 1,542 recipient resource segments to the TPL Resource File. During the time frames of January, February, and March of 1996, these segments were erroneously deleted from the system through program error. The problem was discovered in June 1997, during the TPL audit.

Unisys created a program in July 1997 to read the Daily Transaction Log File from January 1996 through the current date and produced a report which identified the 1,542 recipients. The TPL operational area added the recipient information back on the Resource File in July of 1997. The TPL Retroactive month-end process produced the TPL Billings for all the claims which should have been cost-avoided, and the billing records were set up on the system August 5, 1997. The TPL Billing tape was sent to Administar that week, and the actual billings were mailed to the appropriate carrier for reimbursement.

PRIOR YEAR FINDING 2: The Department For Medicaid Services Should Develop Controls To Monitor The Third-Party Liability Function Performed By The Fiscal Agent (Continued)

We will return the Federal share on claims that were paid, as we sent out billings to the insurance carriers on the match. When we receive the payment from the other insurance carrier, it is posted into the “Medicaid Management Information System (MMIS)” which generates appropriate reports for the Health Care Financing Administration (HCFA) share to be returned.

Our audit showed this finding to be partially resolved for the year ended June 30, 1997. See audit finding 97-CHS-54. The questioned costs of \$465,022 associated with this finding are not resolved.

PRIOR YEAR FINDING 3: The Cabinet For Health Services Should Improve Controls Over The Determination Of Accounts Payable

The Cabinet for Health Services did request Accounts Payable data from all operations in the Cabinet through a letter sent to all office heads and commissioners for SFY 1997. The basis of calculating Accounts Payable on the Memorandum of Agreement for Mental Health and Mental Retardation for SFY 1997 was using SFY 1996 Historical data. The procedure to evaluate accounts to determine areas where estimates should be made and the procedure to document the determination of estimated accounts was followed by the Cabinet for Health Services for SFY 1997.

Our audit showed this finding to be resolved for the year ended June 30, 1997.

PRIOR YEAR FINDING 9: The Department for Social Insurance Job Opportunities and Basic Skills Program Should Improve The Internal Controls Relating To Support Services Transportation Payments

Our response remains the same, as the adopted policy remains in effect. We are initiating an adjustment to transfer \$1,157 from the Federal fund. This adjustment will be reflected on the Temporary Assistance for Needy Families quarterly report for December 31, 1998.

Our audit showed this finding was not resolved for the year ended June 30, 1997. See audit finding 97-CFC-34.

Prior Year Reportable Conditions relating to Federal Programs:

PRIOR YEAR FINDING 17: The Department For Medicaid Services Should Improve Controls Over Drug Rebate Billings, Collection, And Recording

See agency's response FY96 SSWAK pg. 238 [reprinted below].

A Design Change Request (DCR) will be prepared which requests Contract Monitoring and the current fiscal agent (Unisys) to prepare for Drug Rebate a notification log containing the date the HCFA tape was received by Department for Medicaid Services (DMS) and the fiscal agent along with the date the 38-day notice letters are due and mailed. When appropriate, this Drug Rebate Log will include days late, an explanation, and corrective measures taken.

All of the examples fell in the period of implementation of the new MMIS. Drug rebate screens were not put into production until the first week of April 1996. All drug rebate checks were deposited as they were received, but could not be posted until the system was developed to accept them.

Since the screens have been in production, the normal posting turnaround time is five working days which has remained consistent since implementation.

We believe the problem reported in the audit was due to the implementation of the MMIS system, and the posting of five days is a reasonable time frame at this time.

A DCR will be prepared which requests Contract Monitoring and the current fiscal agent (Unisys) to prepare for Drug Rebate a notification log containing the date the HCFA tape was received by DMS and the fiscal agent along with the date the 38-day notice letters are due and mailed. When appropriate, this Drug Rebate Log will include days late, an explanation, and corrective measures taken.

Drug Rebate will include in this DCR a request to send a 60-day (from the billed date) late notice letter to labelers that have not responded to the 38-day notice letter. They will be notified that 30 days from the date of this letter all remaining unpaid balances will then be turned over to ClaimTraq, Inc., for dispute resolution. Contract Monitoring and Unisys will be instructed to include this request in the newly requested Drug Rebate Log. The Drug Rebate Manual will be revised/updated to include the procedures as described in the DCR request.

This discrepancy (negative/positive balances) was initially defined by drug rebate staff. This was a problem created when Unisys (in error) placed test data into production. A Discrepancy Report Form (DRF) was prepared for the Contract Monitoring Branch. Drug Rebate staff have been informed that Unisys staff are researching to identify needed action to correct the discrepancy and will take corrective action.

PRIOR YEAR FINDING 17: The Department For Medicaid Services Should Improve Controls Over Drug Rebate Billings, Collection, And Recording (Continued)

This discrepancy was also located by Drug Rebate staff. A DRF was prepared for the Contract Monitoring Branch. Drug Rebate staff have been informed that Unisys staff are researching to identify needed action to correct the discrepancy and will take corrective action.

The MMIS fiscal agent should be capable of providing utilization data to substantiate the total number of units paid; however, the request must be made for 'data at the time billed.' If not defined, adjustments could be made to these National Drug Codes. Therefore the data would appear to be erroneous.

The Drug Rebate staff is in the process of rewriting the manual to include the procedures as described in the DCR, to include references to ClaimTraQ, Inc., and their resolution responsibilities.

DMS has addressed HCFA concerning the 'types of units' problems. To date, HCFA has expressed no interest to solve this discrepancy and it is not solvable at the state level.

Our audit showed this finding to be partially resolved for the year ended June 30, 1997. See audit finding 97-CHS-44.

PRIOR YEAR FINDING 18: General Computer Controls Over Disability Determination Should Be Strengthened

The Disability Determinations Case Tracking system software has been renovated to handle the year 2000. Casual observation of the screens will continue to show that the year is still two digits, but use of a programming convention (windowing) will make the dates work well into the next century. The operating system for the Wang platform on which this application runs is compliant as are the other supporting Wang softwares. The individual workstations are in the process of being replaced by compliant units. This should be completed in the next nine or ten months.

The Disability Determination Division has started using the Federal security forms required by Social Security (the Federal agency with which the Disability Determination Division works) because the Disability Determination Division is migrating to the Social Security EDP system. As users receive Federal logons, they will receive a detailed explanation of the needs of computer security and the need to protect the confidentiality of data. The users should be migrated to the Federal system over the next nine months.

PRIOR YEAR FINDING 18: General Computer Controls Over Disability Determination Should Be Strengthened (Continued)

Although the less formal system works well, we will be adding confirmations through the use of e-mail. This will include addition of new users, deletion of people who leave and definition of tasks that must be performed on the system. This will be put into effect at the next Disability Determination Division management meeting.

Our audit showed this finding to be resolved for the year ended June 30, 1997.

PRIOR YEAR FINDING 19: The Cabinet For Health Services Should Improve Controls Over The Kentucky Health Care Program

We are designing audits to review samples of recipient eligibility forms and procedures for determining eligibility. Our intent is to conduct our first audit by June 30, 1998.

Beginning with the January 1998 checks release, appropriate segregation of duties was in place. Staff requesting checks stopped their involvement at the time the request was made. When the checks are received, they are verified and mailed by another staff person.

Our audit showed this finding to be partially resolved for the year ended June 30, 1997. The finding relating to this topic is considered an other matter for the year ended June 30, 1997 and not included in this report.

PRIOR YEAR FINDING 20: The Finance And Administration Cabinet And The Cabinets For Health Services And Families And Children Should Develop Procedures To Ensure Vendors Providing Services To Federal Programs Are Not Debarred Or suspended By The Federal Government

Cabinet for Health Services Response

The Management Administrative Reporting System (MARS) to be implemented on 7/1/99 will have the capability of identifying vendors/contractors who have been debarred/suspended. Also, the Cabinet will address the certification within their contract language for the SFY 00.

Our audit showed this finding was not resolved for the year ended June 30, 1997. See audit finding 97-CHS-47.

PRIOR YEAR FINDING 20: The Finance And Administration Cabinet And The Cabinets For Health Services And Families And Children Should Develop Procedures To Ensure Vendors Providing Services To Federal Programs Are Not Debarred Or suspended By The Federal Government (Continued)

Cabinet for Families and Children Response

The Cabinet for Families and Children concurs with this finding. MARS, to be implemented on July 1, 1999, will have the capability of identifying vendors/contractors who have been debarred/suspended.

The Cabinet will address the certification within their contract language for the next state fiscal year.

*Our audit showed this finding was not resolved for the year ended June 30 1997.
See audit finding 97-CFC-37.*

PRIOR YEAR FINDING 21: The Department For Medicaid Services Should Improve Internal Controls Relating To The Alternative Intermediate Care/Mental Retardation Waiver

Corrective Action has been taken. See agency's response FY96 SSWAK pg. 246 [reprinted below].

As specified in the summary of findings, there were unforeseen delays in renewal of the third-party reviewer's contract in 1995. This resulted in a variance from the third-party reviewer's prescheduled certification and recertification survey visits.

Upon contract renewal, the third-party reviewer immediately resumed the survey visits, targeting those providers requiring immediate certification/recertification updates.

Specific reference is made, to the fact DMS went into the MMIS and changed applicable end dates so claims would not be denied even though DMS had yet to receive written documentation that the surveys had been conducted and recertification periods had been "backdated" by the third-party reviewer.

The contract between DMS and the third-party reviewer specifies on page 1, section E, that "results of all surveys, both initials and recertifications, shall be transmitted to the DMS within sixty (60) days of the date of the survey."

PRIOR YEAR FINDING 21: The Department For Medicaid Services Should Improve Internal Controls Relating To The Alternative Intermediate Care/Mental Retardation Waiver (Continued)

Due to the fact that providers' certification/recertification may be pending during the sixty-day turn around time to receive the written information, DMS (Alternative Intermediate Services for the Mentally Retarded (AIS/MR) staff) receives from the third-party reviewer's representative recommendations for certification/recertification via telephone immediately following the survey. This enables DMS to prevent "lapses" in service while waiting to receive the typed summary of findings and recommendations.

The information previously referenced was received from the third-party reviewer by telephone on the last day of, or the day following, the survey visit for each provider listed on the MAP Attachment A. Subsequently, DMS entered the appropriate information into the MMIS to prevent undue "lapses."

In adherence to contractual procedures, results of the third-party reviewer's findings were received by DMS in each case listed within sixty days of the date of the survey. In addition, the typed/completed results/findings were also received by DMS within the required sixty-day time frame.

Scheduled certification/recertification visits continue to be conducted and maintained as outlined in the AIS/MR manual. The contractual procedures and/or other processes referenced are based on the criteria of the approved AIS/MR Waiver agreement.

To enhance AIS/MR processes for updating providers' certification/recertification, we will request that the third-party reviewer "FAX" their recommendations for certification/recertification to DMS immediately following a survey visit, so that documented recommendations are established and available. Telephone contacts following survey visits will also continue as this has been an excellent source of communicating the providers' updated status and other important information about pertinent issues.

Information regarding provider certification/recertification updates shall be entered into MMIS as soon as it is transmitted to DMS via telephone, FAX, and/or typed copy in order to avoid unnecessary "lapses."

All documentation, including phone messages, will be maintained in individual provider files and accessible as needed for review and/or easy reference.

As described in the comment, a checklist is utilized to track the receipt of required documentation related to ensuring that provider certification requirements are met.

PRIOR YEAR FINDING 21: The Department For Medicaid Services Should Improve Internal Controls Relating To The Alternative Intermediate Care/Mental Retardation Waiver (Continued)

To improve upon the effectiveness of this process, a second copy of each checklist shall be maintained in a centralized location. In addition to documentation on the checklist in each individual provider's file, information, as appropriate, shall also be entered onto the checklist in the centralized file, to include if and when a Plan of Correction (POC) is requested.

The centralized file shall be reviewed at least weekly to ensure that each step in the process is carried out in a timely manner. Upon identifying non-adherence to the process, the Alternative Intermediate Services (AIS) reviewer shall make appropriate contacts to determine the status of outstanding issues, events, and/or requested information/POCs. Steps shall be initiated at that time, if necessary, to obtain required documentation and/or to resolve outstanding issues in order to maintain timeliness of the process and desirable outcomes for AIS/MR waiver recipients.

Edit checks were in place and operating on September 1, 1996. The edit checks prevent an AIS/MR waiver claim from being paid if a prior authorization for services is not in the MMIS for the recipient.

Our audit showed this finding to be partially resolved for the year ended June 30, 1997. The question cost of \$120,760 has not been resolved; however, the corrective action plan described above was implemented.

PRIOR YEAR FINDING 22: The Cabinet For Health Services Should Improve Controls To Ensure That Medicaid Payments Are Made Only For State Approved Services

The Department for Medicaid Services implements the procedure to ensure that the entry of any procedure code into the MMIS is for an approved service and that any changes are approved by an authorized person. The Department also implemented a process in which the State Plan is reviewed to ensure that a procedure code which is added, deleted, or changed is in compliance with the services described in the State Plan. However, upon completing a risk assessment, it was determined that departmental staff were reviewing the codes for compliance after the code had already been entered into the MMIS.

Therefore, in the future, staff will provide the Division of Administration and Development, which is responsible for maintaining the State Plan, all information regarding any procedures that they plan to accrete to the MMIS. Division of Administration and Development staff will then, in turn, review the State Plan for compliance, and respond to the staff initiating the request indicating whether they may accrete the procedure code or codes in question.

PRIOR YEAR FINDING 22: The Cabinet For Health Services Should Improve Controls To Ensure That Medicaid Payments Are Made Only For State Approved Services (Continued)

In response to the auditor's recommendation that the Department review existing codes on the MMIS to ensure that they are approved as part of the State Plan, we had previously responded to your office that procedure codes currently in the MMIS have been reviewed to ensure that the corresponding service is included in the State Plan as a covered service. However, the staff person who was responsible for this activity has since retired, and we have been unable to verify that this review has been performed. Therefore, we are obtaining a list of all current procedure codes in the MMIS so that a review of the corresponding services described in the State Plan may be completed. It is our intention that this process will be completed by June 30, 1998.

Our audit showed this finding to be resolved for the year ended June 30, 1997.

PRIOR YEAR FINDING 23: The Division Of Maternal And Child Health Should Approve Payments Only After Supporting Documentation Has Been Submitted

Corrective action has been taken. See agency's response FY96 SSWAK pg. 250. [reprinted below]

Corrective action has been taken. Letters have been sent to inform Universities that quarterly bills will not be processed without supporting documentation. Division of MCH staff have been directed to refrain from paying any requisition until they have received documentation that the work has been completed.

Our audit showed this finding to be resolved for the year ended June 30, 1997.

PRIOR YEAR FINDING 24: The Cabinet For Health Services Should Strengthen Controls Over Estimation Of Contingent Liabilities

I would like to submit the attached form that will be completed by the attorney upon receipt of an assigned case. The form will then be retained in the case file throughout the duration of the case. Whenever it is necessary to make modifications to the contingent liability amount or the percent chance of loss to the Commonwealth, the attorney will document those modifications together with the reason(s) for such. This form is currently being put into use (January 15, 1998).

Our audit showed this finding was not resolved for the year ended June 30, 1997. See audit finding 97-CHS-1.

PRIOR YEAR FINDING 25: Subrecipient Monitoring Procedures At The Division Of Substance Abuse Should Be Improved

Corrective action has been taken. See agency's response FY96 SSWAK pg.251 [reprinted below].

The Division will institute a computerized report tracking system so that management can verify the receipt and review of all reports as they become due. This will enable Division management to assure documentation of those reviews in a consistent and timely manner. We are confident that this system will successfully address the finding so that the control weakness will be corrected for future audit periods.

Our audit showed this finding was not resolved for the year ended June 30, 1997. See audit finding 97-CHS-48.

PRIOR YEAR FINDING 26: The Department For Social Insurance Should Improve Controls Over Subrecipient Monitoring Within The Low-Income Home Energy Assistance Program

Audit reviews were performed by Office of Inspector General (OIG) for FY 1997. There is a contract between the Cabinet for Families and Children (CFC) and the OIG to perform audit reviews for FY 1998.

The audit review log now includes the collective amount due to CFC.

The 1998-99 contracts between the Department for Community Based Services (DCBS) and the Community Action Agencies (CAA) to operate the weatherization component of the Low-Income Home Energy Assistance Program (LIHEAP) now contains language requiring the final audits to be submitted within nine months from the end of the contract.

The new LIHEAP coordinator hired by Kentucky Association for Community Action (KACA) in 1997 will coordinate the 1998 program. The 1998-99 LIHEAP contract states the CAAs will be monitored from November 1, 1998 through March 31, 1998.

A log of all delegate agreements and amendments is maintained by the Energy Assistance Branch.

Department for Social Insurance monitors reviewed the two percent case review summaries during the monitoring of KACA and the 1997-98 LIHEAP program.

PRIOR YEAR FINDING 26: The Department For Social Insurance Should Improve Controls Over Subrecipient Monitoring Within The Low-Income Home Energy Assistance Program (Continued)

All CAAs received a program review during FY1997-98. A process documenting the completion of required reworks is now fully in place. A log tracing the status of the reworks has been developed and will be implemented immediately.

*Our audit showed this finding was not resolved for the year ended June 30, 1997.
See audit finding 97-CFC-29 .*

PRIOR YEAR FINDING 27: The Department For Social Services Should Improve Its Audit Tracking And Review System

The Cabinet, during its recent reorganization, created the Office of Performance Enhancement. This office shall centralize audit documentation and tracking required under OMB A-133. The Division of Outcome Based Contracts, Contracts Management Branch, has designated a staff person whose primary function shall be to document receipt of audits required under OMB A-133, enter all required information including CFDA number in the tracking system, and track the audit reviews and resolution of differences. The Contracts Management Branch has been receiving technical assistance from the Cabinet for Health Services, Division of Audits regarding OMB A-133 requirements. In addition, designated staff shall receive on-going training relative to audits and OMB A-133 requirements.

*Our audit showed this finding was not resolved for the year ended June 30, 1997.
See audit finding 97-CFC-38.*

PRIOR YEAR FINDING 28: The Department For Social Services Should Ensure That Monitoring of Day Treatment And Chapter 1 Programs Is Preferred

The Day Treatment and Chapter I programs are now in the Justice Cabinet, Department of Juvenile Justice.

*Our audit showed this finding was not resolved for the year ended June 30, 1997.
See audit finding 97-CFC-39.*

PRIOR YEAR FINDING 29: The Cabinet For Families And Children Should Enforce Contract Compliance With Glasscock McMullen Management Services Corporation (GMC) In The Food Stamps Program Controls Over The Kentucky Health Care Program

We are continuing to stress to GMC the importance of complying with contractual agreements. We will continue to stress to GMC the importance of coverage. However, we do understand the difficulty in hiring individuals with the necessary training on a part time or fill-in basis. Due to the training needed, hiring through a temporary agency is impossible. With the implementation of Electronic Benefits Transfer on May 5, 1999, the issues with GMC will become moot.

Our audit showed this finding to be resolved for the year ended June 30 1997.

PRIOR YEAR FINDING 33: The Department Of Military Affairs Should Strengthen Its Procedures For Monitoring Subrecipients

The Department of Military Affairs has/or will implement procedures to strengthen our controls over the monitoring of subrecipients to ensure all applicable audit requirements are met.

Our audit showed this finding was not resolved. See finding 97-MilitaryAffairs-50.

PRIOR YEAR FINDING 48: Controls Over Federal Programs At the Cabinet For Health Services Should Be Strengthened To Include All Federal And State Requirements and Regulations

See agency's response FY96 SSWAK Pg. 296 [reprinted below].

We concur with the recommendation except as it relates to the Claims Processing and Assessment System and the completeness of provider files (Item 2) as discussed below.

The Claims Processing Assessment System (CPAS) is no longer required by HCFA, neither mandatory nor alternate. A HCFA transmittal notice dated August 13, 1996, notified state agencies that CPAS had been discontinued.

PRIOR YEAR FINDING 48: Controls Over Federal Programs At the Cabinet For Health Services Should Be Strengthened To Include All Federal And State Requirements and Regulations (Continued)

The Department of Medicaid Services is currently reviewing and redeveloping all its provider agreements. The State of Kentucky Boards of Licensure are sending tapes to analyze viability of automated input of the provider's licensure into the MMIS system on a yearly basis. Ownership disclosures are to be updated and the Department for Medicaid Services is working on an RFP to possibly contract for services to enhance this area. Currently no one is enrolled without a current and fully completed disclosure form. The preventative providers (Health Departments) are not licensed; therefore, this accounts for (one) provider not having a license on file. All provider forms, if not in total completion, are returned to the provider before being accepted and enrolled.

This finding was considered an other matter and not a reportable finding for SFY 96. The finding was resolved for the year ended June 30, 1997, however, this finding was associated with three questioned costs. Our audit showed the questioned costs of \$125,176 and \$2,856 associated with this finding have not been resolved for the year ended June 30, 1997. However, the third questioned cost of \$68,205 related to this finding has been resolved.

PRIOR YEAR FINDING: The Workforce Development Cabinet Had Questioned Costs of \$372,383 For The Fiscal Year Ended June 30, 1993

Auditor Comment:

In the *Status of Prior Year Questioned Costs* from the fiscal year 1996 Statewide Single Audit of the Commonwealth of Kentucky, the Workforce Development Cabinet had questioned costs of \$372,383 from a fiscal year 1993 audit. According to the fiscal year 1993 *Report of the Statewide Single Audit of the Commonwealth of Kentucky* the questioned cost derived from the following finding:

In relation to DES payroll, payroll charges were found to have been improperly coded to Department of Labor programs. Those employees with improper coding either did not work on the programs charged or worked an amount of time different from that charged. When determinable, we limit the questioned cost to the amount represented by the employee; in other cases, we questioned the entire salary.

During the 1997 audit, \$73,749 of the \$372,383 was resolved, leaving \$298,634 unresolved.

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COMMONWEALTH OF KENTUCKY
LIST OF AGENCIES AUDITED
AS PART OF THE STATEWIDE SINGLE AUDIT OF
THE COMMONWEALTH OF KENTUCKY
FOR THE YEAR ENDED JUNE 30, 1997

The following is a list of the agencies audited as part of the Statewide Single Audit of the Commonwealth of Kentucky for the year ended June 30, 1997. CPA reports are available upon request to the respective audited agency.

AGENCIES AUDITED BY CERTIFIED PUBLIC ACCOUNTING FIRMS:

Bluegrass State Skills Corporation
Kentucky Center for the Arts Corporation
Eastern Kentucky University
Kentucky Economic Development Finance Authority and Kentucky Mortgage Insurance
and Guarantee Corporation
Commonwealth Small Business Development Corporation
Kentucky Educational Savings Plan Trust
Kentucky Authority for Educational Television and Kentucky Educational Television
Foundation
Finance and Administration Cabinet – Department of Information Systems (general
computer controls)
Kentucky Higher Education Assistance Authority
Kentucky Higher Education Student Loan Corporation
Kentucky Horse Park
Kentucky Housing Corporation
Kentucky Infrastructure Authority
Judicial Form Retirement System
Kentucky State University
Kentucky Local Correctional Facilities Construction Authority
Kentucky Lottery Corporation
Morehead State University
Murray State University
Northern Kentucky University
Office of the Petroleum Storage Tank Environmental Assurance Fund
Kentucky Retirement Systems
Kentucky State Fair Board
Teachers' Retirement Systems
Transportation Cabinet
Turnpike Authority of Kentucky
University of Kentucky

AGENCIES AUDITED BY CERTIFIED PUBLIC ACCOUNTING FIRMS (CONT):

University of Louisville
Western Kentucky University
Kentucky Workers' Compensation Insurance Program (Labor Cabinet And Workers'
Compensation Funding Commission)
Department of Military Affairs (major federal programs)
Department of Agriculture

AGENCIES AUDITED BY THE AUDITOR OF PUBLIC ACCOUNTS OFFICE:

Administrative Office of the Courts (agency level personnel and payroll functions)
Cabinet for Families and Children (agency level receipts, certain expenditures, accounts
receivables and payables, contingencies, certain federal programs)
Cabinet for Health Services (agency level receipts, certain expenditures, accounts
receivables and payables, contingencies, certain federal programs)
Cash and Investment Functions (Department of the Treasury and the Finance and
Administration Cabinet)
Department of Corrections (agency level personnel and payroll functions)
Department of Education (agency level receipts, expenditures, accounts payable, and
major federal programs)
Finance and Administration Cabinet (agency level payroll and personnel function)
Finance and Administration Cabinet (cash management function)
Finance and Administration Cabinet (central level functions and revenue functions for
certain organizational units)
Finance and Administration Cabinet – Department for Administration (Statewide Cost
Allocation Plan)
Governor's Office for Policy and Management (budget process)
Kentucky Health Purchasing Alliance (selected controls relating to receipts and
disbursements)
Kentucky Kare Plan (Personnel Cabinet)
Risk Management Funds (Department of Insurance and Personnel Cabinet)
Department for Local Government (major federal programs)
Natural Resources and Environmental Protection Cabinet (major federal program)
Department of Parks (agency level personnel and payroll functions)
Personnel and Payroll Functions (Finance and Administration Cabinet and Personnel
Cabinet)
Revenue Cabinet (central level tax receipts, receivable, and liability functions)
Department of Kentucky State Police (agency level personnel and payroll functions)
Transportation Cabinet (major federal program)
Cabinet for Workforce Development (major federal programs)